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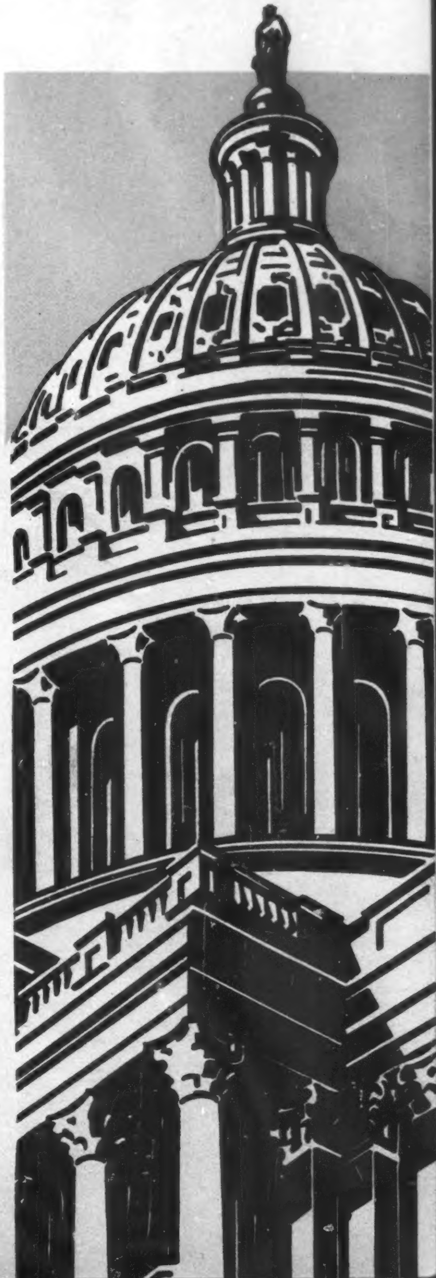

The Roosevelt Gold Policy and Commodity Prices

Currency in American History
How the "Gold Standard" Operates
The Presidents Policy Explained
Emergency Money Acts of Congress
The President's Official Statements

Will the Roosevelt Gold Policy Raise the Price of American Products?

WASHINGTON, D.C.

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THE CONGRESSIONAL DIGEST

The Pro and Con Monthly

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THE
CONGRESSIONAL DIGEST

The Question This Month:

Will the Roosevelt Gold Policy Raise the Price of American Products?

Foreword

AFTER he had been in office but little more than one month, President Roosevelt, on April 5, last, called on all firms, including financial institutions, and all individuals in the United States to turn over to the Government all gold bullion, gold coin and gold certificates in their possession. Shortly thereafter he prohibited the shipment of gold abroad.

This action by the President was taken under express authority given him in the Emergency Banking Act, passed by Congress on March 9.

Later, in the Agricultural Adjustment Act and under a Joint Resolution passed by Congress, he was given further powers to deal with gold and with the currency.

Armed with this special authority, given him by Congress on the ground that a national emergency existed, the President, in October, began, through the Reconstruction Finance Corporation, purchases of gold at steadily increasing rates in an effort thereby to raise general commodity prices in the United States.

This policy, coupled with the continual demand during the past few years by a group in Congress for currency inflation, has resulted in a nation wide discussion of the financial and currency problem, with "the gold standard" as the main object of controversy.

In this number of the DIGEST will be found a brief historical review of the gold standard in American financial history, followed by articles explaining the present problem. In his article on page 6, Dr. E. A. Goldenweiser, director of research of the Federal Reserve Board, an outstanding authority on currency questions, explains the gold standard. On page 7 will be found an impartial and authoritative analysis of the President's gold policy by Leo Pasvolsky, of the advisory council of the Brookings Institution, and a specialist on gold. This article is taken from Mr. Pasvolsky's book "Current Monetary Issues," just off the Brookings Institution press.

A reading of these two articles will prepare the student of the gold problem to understand the legislation that was passed by Congress during the early weeks of the Roosevelt Administration and for the discussions that follow in the Pro and Con section.

Since it is generally accepted in Washington that the President's chief guide in the administration of his gold policy is Professor G. F. Warren, of Cornell University, extracts from the book of Professor Warren and F. A. Pearson, "Prices", are printed in the Pro and Con section.

For the guidance of the casual reader as well as the student, a glossary of terms used in the discussion of the problem, and an elementary and enlightening series of questions and answers on gold prepared by the Pittsburgh Public School authorities are also included.

Complete exposition of the silver question as applied to American currency was given in THE CONGRESSIONAL DIGEST for November, 1931. A similar exposition of currency inflation and the commodity dollar was given in the DIGEST for March, 1933. A limited supply of these two numbers is still available.

That the currency problem will again be one of the main controversial questions before Congress during the coming session is a foregone conclusion. Those who desire greater inflation and those who desire the definite coinage of silver at a ratio of 16 to 1 are not satisfied with the steps the President has taken. They want to go even further.

On the other hand, the conservative or "sound money" element, who believe the gold standard the only safe standard, feel that already the President has gone too far.

An attempt at anything approaching a definite prediction as to what Congress will do is useless at this time. By the middle of January, however, various moves will have been openly made. The President's recommendations will have been received and the battle will begin to rage in earnest.

The Money Problem in American History

1619

On July 31, the first General Assembly of Virginia met at Jamestown and the first law passed was one fixing the price of tobacco, which was already the local currency. In 1642 an act was passed forbidding the making of contracts payable in money, thus virtually making tobacco the sole currency. The act of 1642 was repealed in 1656, but nearly all the trading in the province continued to be done with tobacco as the medium of exchange.

1620

The first settler of New England found "wampumeage" sometimes called "wampum" and sometimes "peage," in use among the aborigines as an article of adornment and a medium of exchange. It consisted of beads made from the inner whorls of certain shells found in sea water. The beads were polished and strung together in belts or sashes. The early settlers of New England, finding that the fur trade with the Indians could be carried on with wampum, easily fell into the habit of using it as money. It was practically redeemable in beaver skins, which were in constant demand in Europe. The unit of wampum money was the fathom, consisting of 360 white beads, worth sixpence the fathom. In 1648 Connecticut decreed that wampum should be "strung suitable and not small and greatly uncomely and disorderly mixt as formerly it hath been." Four white beads passed as the equivalent of a penny in Connecticut, although six were required in Massachusetts and sometimes eight. In the latter colony wampum was at first made legally receivable for debts for the amount of 12d. only. In 1641 the limit was raised to £10, but only for two years. It was then reduced to 40s., but in Massachusetts it was not receivable for taxes. The use of wampum extended southward as far as Virginia.

1634

The first local currency of the New Netherlands was wampum, but it was subordinate to the silver coinage of the mother country; that is, it was reckoned in terms of that coinage as fixed by the Dutch West India Company from time to time. Wampum was not made in the province, but was imported from the east end of Long Island, the principal seat of production. It is mentioned in a letter from the Patrons of New Netherlands to the States General in June, 1634, as "being in a manner the currency of the country with which the produce of the country is paid for," the produce of the country being furs.

1650

Before this time Connecticut, Massachusetts, and Virginia had passed laws making Spanish coins legal tender. Coin was scarce in the colonies, but it was not entirely lacking. Every ship from England, Holland, France and Spain brought a small quantity of coins, and a brisk trade with the West Indies was bringing a steady stream of silver to the Atlantic ports. The coins were a heterogeneous collection. Gold coins from England, France, Portugal and Arabia were common. The silver coins were from Mexico, Peru, Spain, Holland, England, Germany, France and Sweden. A South Carolina legal tender statue of 1701 named nine varieties of silver coins and four varieties of gold. The proportion of English coins in the total was very small.

The predominant coin throughout the colonies was the Spanish piece-of-eight, or eight-real piece, known variously as the peso, the peso duro, the piastre, the piece-of-eight and the Spanish dollar. Its legal weight was about 388 grains of pure silver. In 1738 the weight was reduced to 383.85 grains. The crude state of the art of coinage and the difficulty of administrative control by Spanish authority combined to cause irregularities in the coinage of the Mexican and Peruvian mints. The dollars in circulation in the colonies were of widely differing pure silver content. No full-weight coins were in circulation in any event. Clipping and sweating were widely practiced, and such coins as escaped this treatment were picked out for shipment to England. The valuations of the dollar varied not only from colony to colony but also from time to time in the same colony. By 1700 they had crystallized into permanent ratings, varying from 5 shillings in Georgia to 8 shillings in New York. With the growth of foreign commerce and inter-colonial trade they became a source of endless confusion and developed methods of accounting and reckoning that were to retard the progress of a national coinage until the period of the Civil War.

1666

A treaty was made and ratified by the colonies of Maryland, Virginia and Carolina, to stop planting tobacco for one year in order to raise the price. This temporary suspension of planting made necessary some other mode of paying debts. It was accordingly enacted that both public dues and private debts falling due "in the vacant year from planting" might be paid in country produce at specified rates.

Among the early settlers, beaver skins were widely used as money. Farm produce was another form of currency, and one in which taxes were frequently levied. As far as possible, the colonial governments controlled the prices of commodities and voted from year to year the rates at which various grains and other produce would be received in payment of public dues. For larger sums cattle were often used. A varied assortment of produce was collected at the Government offices and not infrequently the Treasurer had to be relieved of redundant merchandise by selling it at a loss when the market price fell below the Government rates. Produce pay only went out gradually; for a long time salaries were paid partly in coin and partly in merchandise.

1670

MASSACHUSETTS repealed the law that made corn and cattle the equivalent of money.

1674

RHODE ISLAND constituted wool at the rate of 1s. per pound a standard of value for assessing rates.

1685

A FRENCH official in Canada paid local troops with promises written on the backs of playing cards, and "card money" in imitation of this odd currency was later issued by the French government for use in Canada.

1690

MASSACHUSETTS issued Treasury bills to pay military expenses. These notes were the first government paper money issued in Europe or America.

1704-1707

THE British Parliament attempted to control the dollar valuations in the colonies by proclamations forbidding a higher rating than 6 shillings, but the order was nullified by private agreements in business and by Colonial statutes that rated the dollar by weight.

1720

THE Assembly of South Carolina made rice legal tender for the payment of taxes, whilst sugar, rum, molasses, indigo, and skins all served as money at different times and in different localities.

1727

TOBACCO notes were legalized. These were in the nature of certificates of deposit in government warehouses issued by official inspectors. They were declared by law current and payable for all tobacco debts within the warehouse district where they were issued.

1734

ANOTHER variety of currency called "crop notes" was introduced. These were issued for particular casks of tobacco, each cask being branded and the marks specified on the notes.

1776

BEFORE and during the Revolutionary period English, French, Spanish and Portuguese coins were in circulation throughout the American Colonies. The "Spanish Milled Dollar" was the unit of common account, although its value varied in the different Colonies.

1782

ROBERT MORRIS, Superintendent of Finance, recommended the establishment of a colonial mint. His recommendation was approved by the Continental Congress and a "Grand Committee" was appointed to consider the general question of the coinage of money. Paper money had been issued during the Revolution, redeemable in Spanish dollars.

1785

THE Grand Committee reported that in France silver was the standard of money, while in England and Spain gold was the standard, and recommended the adoption of the silver standard. The report stated: "Sundry advantages would arise to us from a system by which silver might become the prevailing money. This would operate as a bounty to draw it from our neighbors, by whom it is not sufficiently esteemed. Silver is not exported so easily as gold, and it is a more useful metal."

1786

ON October 16, Congress accepted a report from the Board of Treasury on the adjustment of proposed gold and silver dollars and for the establishment of a mint. The Congress approved the dollar as the unit, but nothing was carried into effect before the adoption of the Constitution of the United States in 1788, and foreign coins continued to be the only coins in use in America.

The Continental Congress, however, chose as the monetary unit of the Federated Colonies the dollar of 375.64 grains of pure silver. This unit had for its origin the Spanish dollar, which was the world's chief coin from 1600 to 1800. The Colonial dollar was never actually coined, since there were no mints in the Colonies.

The original Spanish dollar had, during the Seventeenth Century, a legal weight of 388 grains of pure silver. In 1738 the legal weight was reduced to 382.85 grains. Thus, the Colonial dollar unit represented a still further reduction.

The term "dollar" is derived from a coin made in the Sixteenth Century in Joachimsthaler (the Joachim Valley) in Bohemia. This coin was generally called a "thaler" which was corrupted by the English into "dollar." The Spanish peso was equivalent to the German "thaler" of the period, and as Spain was then widely engaged in commerce, the Spanish peso was generally referred to as the "Spanish dollar." Spanish dollars were the equivalent of eight reals (about 12 cents) and were also known as "pieces-of-eight," piastres and pesos duros. The Spaniards had established mints in Mexico in 1535 and in Peru in 1621 and Spanish pesos or dollars from these mints, began to enter the trade of Europe and the American Colonies.

1789

FOLLOWING the adoption of the Constitution and the organization of the Congress of the United States the question of a money system for the new Republic was immediately taken up.

1792

IN his "Report on the Establishment of a mint, Alexander Hamilton wrote:

"As long as gold, either from its intrinsic superiority as a metal, from its rarity or from the prejudices of man-

kind, retains so considerable a pre-eminence in value over silver as it has hitherto had, a natural consequence of this seems to be that its conditions will be more stationary. The revolutions, therefore, which may take place in the comparative value of gold and silver will be changes in the state of the latter rather than in that of the former."

Because of the needs of the new country both Hamilton and Jefferson advocated bimetallism, since silver was obtainable from South American mines and gold was difficult to obtain. Together with the Grand Committee of Congress, they had observed that the French ratio of 1 to 15 resulted in the drawing of silver from other countries to France, the ratio in England being 1 to 15.2 and in Spain 1 to 16. The American leaders, therefore sought to fix a ratio in their proposed new money that would draw silver to America.

1792

Congress enacted into law the recommendation of Hamilton, the law providing for a bimetallic standard at the ratio of 1 to 15.

Dr. J. Lawrence Laughlin in his "History of Bimetallism" states that the ratio of 1 to 15 represented an overvaluation of silver as it was fixed at time when the value of silver was beginning to fall, and that Gresham's law (*see Glossary*) began to operate, with the result that in a few years all the gold left America and that by 1818 silver had virtually driven out gold as a medium of exchange.

1819

The British Parliament passed an act for the resumption of cash payments by the Bank of England, which had been suspended in 1797. This caused a demand for gold in England and is considered by many authorities as being responsible, together with the operations of Gresham's law, for the disappearance of gold from America during this period.

Although this question was discussed from time to time in Congress, no action was taken until 1834.

1834

On June 28 an Act of Congress was approved which reduced the weight of the standard gold dollar from 24¾ grains of fine metal to 23.2 grains. This reduced the ratio to silver from 15 to 1 to 16.002 to 1. Gold had been discovered in North Carolina and Georgia. The gold mining interests of these two states and the eastern commercial interests supported the bill in Congress. New York bankers argued that the Spanish dollar and the gold and silver coins of the United States were the only legal currency in the country and that they had become mere articles of merchandise.

President Andrew Jackson had abolished the first Bank of the United States in 1811 and the reserve of a second Bank of the United States, established in 1817, was mostly in silver. The Spanish dollar contained more silver than the American dollar. There were not enough United States silver coins in existence to meet the demands of commerce, which led to general confusion.

The effect of the Act of 1834, according to economists, was to undervalue silver, with the result that silver coin was driven out by the operation of Gresham's law.

As Dr. Laughlin illustrates it: "If a debtor had $16,000 in silver coin, he need take of it only $15,700, melt it into bullion, and, in the bullion market, buy gold bullion, which, when coined at the Mint into gold coins, would have a debt-paying power of $16,000. There was a $300 profit in not using silver as a medium of exchange."

The result was that the gold from the Georgia and North Carolina mines was sent to the mint for coinage; gold coins came in from Europe, Mexico and South America and gold coinage went into circulation generally.

1848

When California was first invaded by gold seekers there were a few Mexican coins in circulation there, but the supply was not nearly sufficient to answer the needs of the growing community. The immigrants brought more or less metallic money with them. The smaller coins were those of many different countries, chiefly Spanish. For want of sufficient coins, the first trading was done largely with gold dust, sometimes by weighing it in scales, and sometimes by guesswork. A "pinch" of gold dust about as large as a pinch of snuff had a current value and was common measure in places where there was no means of weighing. At a public meeting in San Francisco, September 9, 1848, it was resolved by unanimous vote that $16 per ounce was a fair price for placer gold.

1853

Congress passed an act stopping the free coinage of the silver half dollars, quarters, dimes and half dimes: reducing the silver content and limiting the legal tender of these coins to $5, the object of the law being to develop a subsidiary currency. It was this law, according to Dr. Laughlin, which really established the gold standard, and not the later law of 1873.

1873

On February 12 the famous Coinage Act of 1873 was approved. The bill, according to Laughlin and other writers on American financial history, was designed purely to straighten out the existing coinage system. One of the provisions of the Act was to discontinue the coinage of the standard silver dollar, for which was substituted, at the instance of the silver mining interests, a trade dollar for use in Oriental commerce. This trade dollar was described in the committee report on the bill as follows:

"The coinage of the silver dollar piece . . . is discontinued in the proposed bill. It is by law the dollar unit, and, assuming the value of gold to be fifteen and a half times that of silver, being about the mean ratio for the past six years, is worth in gold a premium of about 3 per cent (its value being $1.0312), and intrinsically more than 7 per cent premium in other silver coins, gold-dollar unit and a silver-dollar unit, differing from each other in intrinsic value. The present gold dollar piece is made the dollar unit in the proposed bill, and the silver dollar piece is discontinued. If, however, such a coin is authorized, it should be issued only as a commercial dollar, not as a standard unit of account, and of the exact value of the Mexican dollar, which is the favorite for circula-

tion in China and Japan and other Oriental countries."—(*Sen. Mis. Doc. No. 132, 2d session, 41st Congress, p. 11.*)

The Act of 1873 did, however, declare the gold dollar of 25.8 grains to be the unit of value and this provision, together with the abolition of the standard silver dollar, led in later years to violent criticism of the bill by advocates of bimetallism and caused them to designate the bill as "The Crime of '73." Charges that the bill was surreptitiously passed by the banking interests were denied and Laughlin and other historians take the position that the Act of 1873 was not responsible for the fall in the price of silver in 1876, which they maintain, was caused by the European turn toward a gold standard following the International Monetary Conference of 1867, when Prussia took the lead, followed by France, Belgium and England.

The Act of 1873 was followed by a fight for bimetallism in America which continued for 20 years.

1878

Following fall in silver prices in 1876, the Bland-Allison Act was passed by Congress. This act provided for the purchase by the Treasury of not less than 2 and not more than 4 million dollars worth of silver bullion to be coined into dollars each containing 371¼ grains of pure silver (or 412½ grains of standard silver), these dollars to be legal tender.

1886

In order to aid in circulating the large store of silver dollars Congress passed an act, approved August 4, providing for the issue of $1 and $2 silver certificates.

1890

On July 14 Congress passed the Sherman Act which repealed the Bland-Allison Act. The Sherman Act directed the Secretary of the Treasury to buy 4,500,000 ounces of silver per month to be paid with Treasury notes. These notes were legal tender redeemable in gold coin or in silver dollars coined from the bullion purchased.

The subsequent drain on the gold reserves of the Treasury and the general inflation brought on the panic of 1893, in the opinion of most financial historians.

1894

The Bland-Allison Act was repealed. The Populist Party began to grow strong, one of its chief demands being for the establishment of bimetallism with the free and unlimited coinage of silver at the ratio of 16 to 1. The western and southern states were the sections in which Populism received most of its support.

In the Democratic convention of 1896 William Jennings Bryan, who had advocated the free coinage of silver as a member of the House, successfully led a fight for Democratic espousal of this cause.

The country was suffering from an economic depression which was felt most heavily in the west, Bryan's famous speech in the Democratic National Convention was a direct attack on the gold standard, which he held responsible for the depression. In conclusion referring to the advocates of the gold standard, he said:

"We will answer their demand for a gold standard by saying to them: You shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon this cross of gold."

This speech stampeded the convention and won for Bryan the nomination. The Populists supported him.

The Republican party nominated William McKinley, a member of the House of Representatives from Ohio.

The campaign of 1896 is considered by students of American politics to be one of the most stirring campaigns in history. The East and middle West voted Republican against the South and West. McKinley was elected.

1900

On March 14 Congress passed an Act which declared that the dollar, consisting of 25.8 gold, 900 fine, "shall be the standard unit of value" and made it the duty of the Secretary of the Treasury to maintain all forms of money issued or coined by the United States at a parity of value (equality of purchasing power) with this standard.

The Democratic Party again nominated Bryan and again made the free coinage of silver its principal issue. McKinley was renominated by the Republicans. The country had regained prosperity and McKinley was reelected by an increased majority.

1918

The Pittman Act was passed by Congress providing that the Secretary of the Treasury be authorized to sell to England silver dollars, up to a maximum of $300,000,000, to be melted into bullion and reminted into Indian coins for use in India. The Pittman act provided that these silver dollars should be replaced by American silver bullion to be purchased by the Treasury at not less than $1 an ounce. The act was never fully carried out, owing to the drop in the market rate of silver to 60 cents an ounce.

1930

After attaining a high price following the World War, silver suffered a severe drop. And the advocates of bimetallism as well as silver producers took the position that the fall of silver had much to do with the economic depression.

How The "Gold Standard" Operates

By Dr. E. A. Goldenweiser

Director, Division of Research and Statistics, Federal Reserve Board

(Reprinted from the Congressional Digest, *November, 1931)*

The phrase "*gold standard*" includes a great variety of different standards which have only this in common—that they establish a stable relationship, fluctuating only within the gold points, between a country's currency and gold. A *full gold standard* exists in the United States, where there is no restriction on gold imports or exports, on the redemption of currency in gold coin or gold bullion, on the coinage by the mint of all gold offered for coinage, and on the availability of gold for circulation purposes by those who may wish it. I doubt whether there is any other country where gold is as free from control as it is in the United States, and yet there is practically no gold in circulation in this country. Not by law and not by persuasion, but by the development of custom and owing to the inherently greater convenience of paper money, gold has been driven out of circulation. This is not a case of the operation of the Gresham law by which poorer money always supplants better money, but the combined result of absolute confidence on the part of the people of the United States in our paper money—that is, ultimately in the Government—and the greater efficiency of this kind of money as compared with clumsy coins. In the United States we have the unlimited old-fashioned gold standard minus gold circulation.

A number of other countries have a *gold bullion standard* under which their central banks are obliged to redeem notes only in amounts approximately $8,000, and in bullion rather than in coin. This means in practice that gold is available for international payments, but not for domestic circulation. There are other restrictions in those countries upon the freedom of gold movements. The mint in England is under obligation to mint gold only for the Bank of England, which means that gold bought in the open market cannot be converted into sovereigns, unless the Bank of England chooses to have it converted, and that means that gold is of no use to a Britisher unless he wants it for export, for industrial purposes, or to satisfy a personal hobby.

Still other countries have a *gold exchange standard*, and this includes many minor countries as well as Germany as a matter of law. Under the *gold exchange standard*, the central bank is obliged to redeem its notes either in gold or in exchange on a country which has the gold standard. In practice, it is required to give the holder of notes at its own choice either gold on the spot or gold in one of the financial centers, chiefly London or New York. This arrangement also eliminates gold from circulation, except as it may be circulated under a deliberate policy of the central bank, and restricts its use to reserves and international payments.

The *gold exchange standard*, which prior to the war had functioned in India and the Philippines, was considered by some to be the solution of post-war difficulties and to provide a method by which gold could best be economized. The *gold exchange standard* has, however, lost much of its popularity. Its principal advantage from the operating point of view was that gold could be sent abroad and invested in short-term obligations and could thus earn money for the central bank, while at the same time counting as reserve. From the point of view of world credit conditions, the principal characteristic of the *gold exchange standard* is that under its operation gold in the principal money markets can support currency and credit, not only in those markets, but also in other countries that maintain balances in these markets. It is in this very fact that a weakness of the *gold exchange standard developed*. It became evident that it was a dangerous proceeding to count deposits in one country as reserves in another country. In the United States, for instance, against $100 of deposits at a member bank there is on the average $7.50 of reserves with the reserve bank and against this amount the reserve bank must hold about $2.50 as reserves. This $2.50 under the gold exchange standard would support not only $100 of deposits in this country, but perhaps two and one-half times as much of currency or deposits in some other country. One could even go further than that and point out that the deposits of member banks contain a large part of the reserves of non-member banks and, therefore, the $2.50 in the Federal reserve banks might be the basis of several hundred dollars of deposits in non-member banks, and these deposits in turn could be counted as reserves of some country with a *gold exchange standard*. This might be carrying the dilution of reserves to a very dangerous point.

It is not this alone, however, that has worked against the *gold exchange standard*, but rather the two factors of the desire of the central banks to have gold reserves where they could lay their hands on them and exhibit them in their statements and to visitors, and the desire of the central banks in the gold standard countries to be relieved of the uncertain contingent liability arising out of the volatile element in their short-time money markets represented by other people's reserves. The presence of these foreign reserve funds seeking short-time investment worked toward artificially low money rates. The principal financial centers operated under a veritable sword of Damocles which might be brought down at any moment by an unforeseen withdrawal of gold. It seems to be the judgment of the best informed practical men that the *gold exchange standard* is desirable only for relatively small countries, and that the great commercial countries of the world must have physical control over their own reserves.

Does this mean that the trend is in the direction of a *full gold standard* as it exists in the United States, and as it was understood prior to the war? I think not. It is my opinion that out of the war and the post-war readjustment there has come into the world a new kind of a gold standard which can best be described as the *gold reserve standard*. This term describes a standard which

is relatively independent of the specific legal provisions about convertibility of notes or the availability of gold for export. Provisions protecting gold in case of emergency and dictated by prudence and caution continue to be maintained by different countries, but only with a view to meeting emergencies, and emergencies are not a daily occurrence. Much more important than legal provisions are the practical, habitual daily uses to which gold is put, and at the present time the principal purpose that monetary gold reserves throughout the world is found in its use for reserves of central banks.

What constitutes adequate reserves? In maintaining public confidence, sound management of banking policy and sound government finance are of greater importance than a large hoard of gold. The ratio of gold to total currency and deposits in the United States is about 6.3 per cent; in Great Britain about 4.7 per cent; in Germany about 11 per cent, and in Italy about 17.9 per cent. The figures show that countries where the banking system is highly developed can do business on a sound basis and maintain public confidence with a ratio of gold to liabilities that is from one-third to one-fifth as large as is required by countries that do business chiefly on a currency basis.

To summarize briefly, I believe that out of the war and the post-war disturbances has emerged the gold reserve standard which tends to relieve gold of all its functions, except the duty to serve as reserves. A better understanding by the world of the financial mechanism has brought recognition of the fact that the principal function of reserves is to maintain public confidence. It would seem, therefore, that it should be the objective of financial authorities throughout the world to find means of keeping the public confidence and at the same time to develop methods of banking that will make the available supply of gold be sufficient to meet the needs of trade and industry. It should not be a case of cutting the financial garment of the world according to the available reserve material, but of making such use of available reserves as will provide adequate financial support to world trade.

President Roosevelt's Gold Purchase Plan

by Leo Pasvolsky,

Member, Advisory Council, The Brookings Institution

THE American policy embarked upon in late October embodies a new device for attempting to raise commodity prices in this country by monetary action. The United States government has thus definitely assumed a role of leadership in applying the theory that rising prices induced by monetary policies are a prerequisite to economic recovery. This policy involves, not concerted international action of the sort so frequently discussed at Geneva and London, but independent action by a single country directed toward management of its domestic commodity price level. In view of the vital economic importance of the issues involved, it is necessary to analyze in some detail this new development of American policy.

The basic theory which apparently underlies the new policy is, stated in its simplest terms, that the price level is directly related to the value of gold. Gold is regarded as a world commodity, and its value in terms of goods is, therefore, determined by world supply in relation to world demand. Hence the value of gold, or the amount of goods which exchanges for a given weight of gold, tends to be the same in every country. If the supply of gold increases faster than the demand for gold, its value will fall, and this means (assuming no change in the commodity situation) that each ounce of gold will then exchange for a smaller quantity of other goods than before. Putting the matter another way, more gold would have to be offered for the same quantity of commodities, and the price level would rise everywhere.

Each country has its own monetary unit, in terms of which all commodities are said to have a price. In the United States, the dollar is the unit, and the price of any article is the number of dollars for which it will exchange. However, the definition of a dollar differs in accordance with whether or not a country is on the gold standard.

Since 1834 the dollar has contained 23.22 grains of pure gold. At this rate, an ounce of gold would divide into 20.67 dollar units. Since any individual bringing an ounce of gold to the mint could always obtain for it $20.67 in currency, the price of an ounce of gold was said to be $20.67. Paper dollars and all other forms of currency were freely redeemable in gold at the legally defined ratio of 23.22 grains per dollar. Accordingly any person in possession of gold could always convert it into currency at the rate of $20.67 per ounce, and any person wishing to obtain gold could always purchase it at the same rate. The price of gold, therefore, remained fixed at $20.67 an ounce.

With the suspension of the gold standard, it is no longer possible to exchange paper money for gold at the fixed rate. When this happens it usually becomes necessary to offer more paper money for a given weight of gold. This may be said to mean either that the price of gold has risen or that the paper dollar has depreciated. If, for example, the paper currency depreciates by 20 per cent, the price of gold would rise to $25.80 an ounce instead of remaining at $20.67.

So long as the price of gold remains fixed, changes in the commodity price level in any country, according to the theory back of the gold purchase plan, result *solely* from changes in the value of gold. However, if the price of gold ceases to be fixed, changes in the price level are the result of two factors; the value of gold in terms of commodities, and the price of gold in terms of the national monetary unit. The assumed relationship between

changes in the price of gold and changes in the commodity price level may be illustrated as follows:

Suppose an ounce of gold, when its price is $20.00, would exchange for ten units of commodities. The average price of each commodity unit would be $2.00. Now suppose as a result of the depreciation the price of gold rises to $30.00 an ounce. The average price of the commodities in question would then automatically become $3.00.

From this relationship, the adherents of the theory deduce the governing principle that a national price level can be *consciously regulated* by manipulating the price of gold. This, it is maintained, can be done by legally altering the weight of the gold dollar, so long as the United States is redeeming its paper currency in gold, or, in the absence of redemption, by offering a larger or a smaller number of paper dollars for an ounce of gold. Thus gold is regarded as the key to commodity prices whether the country is on or off the gold standard.

The new plan is expected to operate upon the principle of regulating the commodity price level by controlling the price of gold. Since the country is off the gold standard, the American price level is to be raised by a progressive depreciation of the paper dollar in terms of gold, that is, by offering more and more paper for gold. In effect, the same result is expected to be attained that would be reached by a series of legal reductions in the weight of the gold dollar, which would automatically raise the dollar price of gold. The gold purchase plan is held to have an advantage in that it permits continuous manipulation of the price of gold and the adjustment of its value in the light of changing conditions. It is also regarded as opening the way to a permanent system of controlling prices through currency manipulation.

In devising the machinery for this purpose, an important difficulty had to be surmounted. As a result of the anti-hoarding order of April 5, it became impossible to buy or sell gold freely within the country. In the absence of a domestic gold market, no means existed for either registering or influencing the price of gold in terms of paper dollars. However, gold could still be bought and sold internationally through the foreign exchange process, and the foreign exchange quotations in terms of other currencies became in fact the sole means of measuring the price of gold in paper dollars. For example, before the suspension of the gold standard by the United States, the amount of gold in the dollar was 25.5 times the amount of gold in the French franc. The dollar was, therefore, worth 25.5 francs, and, when exchange was at par, was quoted at that rate in the foreign exchange markets. After the suspension of the gold standard, the dollar gradually declined in relation to the gold franc. It was quoted on November 1, 1933, as the equivalent of only 16.8 francs. Since the French franc still represented the same amount of gold as before, the foreign exchanges registered a depreciation of 35 per cent in the dollar.

This depreciation of the dollar in terms of foreign exchange was giving us a rising price of gold. However, as previously indicated, it was subject to general factors speculative and otherwise, influencing the foreign exchange rate, and showed substantial fluctuations. This, it was argued, was the result of the fact that the government was pursuing a passive policy with reference to foreign exchange. A continuous rise in the price of gold, it was held, could be obtained only by inaugurating an active policy of controlled depreciation. Accordingly, as we have seen, a government monopoly was set up for the purchase of all gold newly mined in the United States. Under this arrangement, the Reconstruction Finance Corporation, acting as the government agency for the purpose, would offer arbitrarily determined amounts of paper money for each ounce of gold brought to it.

Since, according to the theory, the American price level can be uninterruptedly raised only by a sustained rise in the price of gold, and since for this purpose a progressive depreciation of the dollar on the foreign exchanges is indispensable, the success of the plan depended fundamentally upon the effects of gold purchases upon the exchanges. It was apparently thought that the mere raising of the price of gold by the government through gold purchases in the United States would automatically depreciate the dollar in foreign exchange quotations. It was recognized, however, that this might not prove to be the case; hence, it was announced that the government would be prepared to buy and sell gold in foreign markets, thereby directly influencing foreign exchange quotations.

Another consequence expected from the operation of the plan is a stimulation of gold mining. This, according to the theory, would serve to expand the total world supply of gold in relation to other commodities, lower the value of gold, and thus provide an added impetus for an upward movement of the price level in all countries. In the movements of the foreign exchange value of the dollar in relation to the price of gold set by the United States government no close correspondence is revealed. The dollar in the exchange markets has been at times above and at other times well below the Reconstruction Finance Corporation price for newly mined gold, and it is evident that speculative sentiment has continued to be the controlling influence. No official information concerning the precise amount of gold purchased abroad has been made available.

In addition to this mechanism for *raising* the price level, the new plan forecasts the policy to be pursued after the price level has reached the desired height. In announcing that the machinery for regulating the price of gold is intended "to establish and maintain continuous control," and that "this is a policy and not an expedient," representing a step "toward a managed currency," the President indicated that the currency management is to be of the "compensated dollar" type, which would be based on central control and conscious manipulation of the volume of currency and credit.

The purpose of the compensated dollar scheme is to prevent fluctuations in the American commodity price level after the desired level of prices has once been attained. If the price level should show a rise in a given period—as a result of whatever causes—the weight of gold in the dollar would be increased by the same percentage, thereby restoring the previous level of prices. Similarly, if prices should fall, the gold weight of the dollar would be diminished sufficiently to restore the former level. In other words, the effects of changes in the value of gold would be counteracted by arbitrary changes in the price of gold. If gold is not to be utilized as a medium of exchange, it would not in practice be necessary to coin gold at the varying weights established from time to time. Under such conditions, it is held, all that would be needed would be simply to announce the

official price of gold and to establish machinery for government purchase and sale of gold at this official price.

By such a system of monetary management, it is believed, the American price level cannot only be raised to the level obtaining prior to the depression, but can also henceforth be completely stabilized. It can be made entirely independent of changes in the world value of gold, of fluctuations in the output of new gold, of shifts in the foreign exchange value of the dollar, and of movements of commodity prices in other countries. It is contended by the leading advocates of the theory that the effects of changes in the price of gold upon commodity prices would be *mathematically precise*. They state, for example, that "if prices rise 0.1 per cent in a week, the weight of gold purchasable by a dollar would be increased 0.1 per cent until any rise was corrected." Conversely, "if prices fell 0.1 per cent, the weight of the gold purchasable by a dollar would be decreased 0.1 per cent."

Such are the basic principles on which the gold purchase plan is expected to operate. According to the theory, the rise in the commodity price level in this country must *parallel* the increase in the price of gold, or—what is the same thing—the depreciation of the paper dollar in the foreign exchanges. Some advocates of the theory admit, however, that there might be a slight lag in the adjustment of prices. They also point out that changes in the world value of gold would tend to accentuate or lessen the extent of the price rise caused by changes in the price of gold; but they contend that such changes can be offset by manipulation of the price of gold.—*Extracts, see 5, p. 32.*

The Congress Votes Money-Control Powers to The President

I. The Emergency Banking Act

II. The Agricultural Adjustment Act (With the "Thomas Amendment")

III. The "Gold Resolution"

I. The Emergency Banking Act

All of the extraordinary powers being exercised by President Roosevelt in the matter of currency control were specifically conferred upon him in special Acts of Congress passed within a short while after his inauguration.

On March 9 Congress passed the Emergency Banking Act (Public Act, No. 1). Section 2 of this Act amended the Act of October 6, 1917, the wartime "Trading with the Enemy Act," so as to make its terms applicable not only during war, but also "during any other period of national emergency declared by the President." As amended, Section 2, subdivision (b) reads as follows:

"(b) During time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit between or payments by banking institutions as defined by the President, and export, hoarding, melting, or earmarking of gold or silver coin or bullion or currency, by any person within the United States or any place subject to the jurisdiction thereof; and the President may require any person engaged in any transaction referred to in this subdivision to furnish under oath, complete information, relative thereto, including the production of any books of account, contracts, letters or other papers, in connection therewith in the custody or control of such person, either before or after such transaction is completed. Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than $10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. As used in this subdivision the term 'person' means an individual, partnership, association, or corporation."

This Act contained, also, the following amendment to the Federal Reserve Act:

Sec. 3. Section 11 of the Federal Reserve Act is amended by adding at the end thereof the following new subsection:

"(n) Whenever in the judgment of the Secretary of the Treasury such action is necessary to protect the currency system of the United States, the Secretary of the Treasury, in his discretion, may require any or all individuals, partnerships, associations and corporations to pay and deliver to the Treasurer of the United States any or all gold coin, gold bullion, and gold certificates owned by such individuals, partnerships, associations and corporations. Upon receipt of such gold coin, gold bullion or gold certificates, the Secretary of the Treasury shall pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States. The Secretary of the Treasury shall pay all costs of the transportation of such gold bullion, gold certificates, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any individual, partnership, association, or corporation failing to comply with any requirement of the

Secretary of the Treasury made under this subsection shall be subject to a penalty equal to twice the value of the gold or gold certificates in respect of which such failure occurred, and such penalty may be collected by the Secretary of the Treasury by suit or otherwise."

April 5. President Roosevelt, pursuant to the authority given him by the Emergency Banking Act, issued an executive order prohibiting "the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations, and corporations" and prescribing regulations to carry out the purposes of his order.

April 20. President Roosevelt issued an executive order (1) prohibiting exporting or further earmarking of gold for foreign account, except under such regulations as laid down by or with the approval of the President, and (2) authorizing the Secretary of the Treasury to regulate all transactions in foreign exchange, transfers of credit from any banking institution within the United States to a foreign branch or to any foreign bank, and the export or withdrawal of currency from the United States. Provision was made in this order for licenses for exporting gold to those whose desire or necessity to do so is covered by the various exceptions provided for in the original executive order of April 5.

April 29. The Secretary of the Treasury issued further regulations relating to the purchase and export of gold, describing in detail the various requirements under the President's orders.

II. The Agricultural Adjustment Act

(With the "Thomas Amendment")

The second grant of power came when on May 12, the President approved the Agricultural Adjustment Act (Pub. Law No. 10, 73d Congress). Title III of this Act embodies the Amendment offered by Senator Elmer Thomas, Okla., Dem., giving the President power to regulate the currency. Following is the full text of the "Thomas Amendment," which contains provisions for "inflation" if the President desires to put it into effect:

Title III—Financing—and Exercising Power Conferred by Section 8 of Article I of the Constitution: To Coin Money and to Regulate the Value Thereof.

Sec. 43. Whenever the President finds, upon investigation, that (1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or (2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or (3) an economic emergency requires an expansion of credit, or (4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments, the President is authorized, in his discretion—

(a) To direct the Secretary of the Treasury to enter into agreements with the several Federal Reserve banks and with the Federal Reserve Board whereby the Federal Reserve Board will, and it is hereby authorized to, notwithstanding any provisions of law or rules and regulations to the contrary, permit such reserve banks to agree that they will, (1) conduct, pursuant to existing law, throughout specified periods, open market operations in obligations of the United States Government or corporations in which the United States is the majority stockholder, and (2) purchase directly and hold in portfolio for an agreed period or periods of time Treasury bills or other obligations of the United States Government in an aggregate sum of $3,000,000,000 in addition to those they may then hold, unless prior to the termination of such period or periods the Secretary shall consent to their sale. No suspension of reserve requirements of the Federal Reserve banks, under the terms of section 11(c) of the Federal Reserve Act, necessitated by reason of operations under this section, shall require the imposition of the graduated tax upon any deficiency in reserves as provided in said section 11(c). Nor shall it require any automatic increase in the rates of interest or discount charged by any Federal Reserve bank, as otherwise specified in that section. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary, in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion.

(b) If the Secretary, when directed by the President, is unable to secure the assent of the several Federal Reserve banks and the Federal Reserve Board to the agreements authorized in this section, or if operations under the above provisions prove to be inadequate to meet the purposes of this section, or if for any other reason additional measures are required in the judgment of the President to meet such purposes, then the President is authorized—

(1) To direct the Secretary of the Treasury to cause to be issued in such amount or amounts as he may from time to time order, United States notes, as provided in the Act entitled "An Act to authorize the issue of United States notes and for the redemption of funding thereof and for funding the floating debt of the United States," approved February 25, 1862, and Acts supplementary thereto and amendatory thereof, in the same size and of similar color to the Federal Reserve notes heretofore issued and in denominations of $1, $5, $10, $20, $50, $100, $500, $1,000, and $10,000; but notes issued under this subsection shall be issued only for the purpose of meeting maturing Federal obligations to repay sums borrowed by the United States and for purchasing United States bonds and other interest-bearing obligations of the United States: *Provided,* That when any such notes are used for such purpose the bond or other obligation so acquired or taken up shall be retired and canceled. Such notes shall be issued at such times and in such amounts as the President may approve but the aggregate amount of such notes outstanding at any time shall not exceed $3,000,000,000. There is hereby appropriated, out of any money in the Treasury not otherwise appropriated, an amount sufficient to enable the Secretary of the Treasury to retire and cancel 4 per centum annually of such outstanding notes, and the Secretary of the Treasury is hereby directed to retire and cancel annually 4 per centum of such outstanding notes. Such notes and all other coins and cur-

rencies heretofore or hereafter coined or issued by or under the authority of the United States shall be legal tender for all debts public and private.

(2) By proclamation to fix the weight of the gold dollar in grains nine-tenths fine and also to fix the weight of the silver dollar in grains nine-tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 per centum.

Sec. 44. The Secretary of the Treasury, with the approval of the President, is hereby authorized to make and promulgate rules and regulations covering any action taken or to be taken by the President under subsection (a) or (b) of section 43.

Sec. 45. (a) The President is authorized, for a period of six months from the date of the passage of this Act, to accept silver in payment of the whole or any part of the principal or interest now due, or to become due within six months after such date, from any foreign government or governments on account of any indebtedness to the United States, such silver to be accepted at not to exceed the price of 50 cents an ounce in United States currency. The aggregate value of the silver accepted under this section shall not exceed $200,000,000.

(b) The silver bullion accepted and received under the provisions of this section shall be subject to the requirements of existing law and the regulations of the mint service governing the methods of determining the amount of pure silver contained, and the amount of the charges or deductions, if any, to be made; but such silver bullion shall not be counted as part of the silver bullion authorized or required to be purchased and coined under the provisions of existing law.

(c) The silver accepted and received under the provisions of this section shall be deposited in the Treasury of the United States, to be held, used, and disposed of as in this section provided.

(d) The Secretary of the Treasury shall cause silver certificates to be issued in such denominations as he deems advisable to the total number of dollars for which such silver was accepted in payment of debts. Such silver certificates shall be used by the Treasurer of the United States in payment of any obligations of the United States.

(e) The silver so accepted and received under this section shall be coined into standard silver dollars and subsidiary coins sufficient, in the opinion of the Secretary of the Treasury, to meet any demands for redemption of such silver certificates issued under the provisions of this section, and such coins shall be retained in the Treasury for the payment of such certificates on demand. The silver so accepted and received under this section, except so much thereof as is coined under the provisions of this section, shall be held in the Treasury for the sole purpose of aiding in maintaining the parity of such certificates as provided in existing law. Any such certificates or reissued certificates, when presented at the Treasury, shall be redeemed in standard silver dollars, or in subsidiary silver coin, at the option of the holder of the certificates: *Provided*, That, in the redemption of such silver certificates issued under this section, not to exceed one-third of the coin required for such redemption may in the judgment of the Secretary of the Treasury be made in subsidiary coins, the balance to be made in standard silver dollars.

(f) When any silver certificates issued under the provisions of this section are redeemed or received into the Treasury from any source whatsoever, and belong to the United States, they shall not be retired, canceled, or destroyed, but shall be reissued and paid out again and kept in circulation; but nothing herein shall prevent the cancellation and destruction of mutilated certificates and the issue of other certificates of like denomination in their stead, as provided by law.

(g) The Secretary of the Treasury is authorized to make rules and regulations for carrying out the provisions of this section.

Sec. 46. Section 19 of the Federal Reserve Act, as amended, is amended by inserting immediately after paragraph (c) thereof the following new paragraph:

"Notwithstanding the foregoing provisions of this section, the Federal Reserve Board, upon the affirmative vote of not less than five of its members and with the approval of the President, may declare that an emergency exists by reason of credit expansion, and may by regulation during such emergency increase or decrease from time to time, in its discretion, the reserve balances required to be maintained against either demand or time deposits."

III. The "Gold Resolution"

On June 5 the President approved the following Joint Resolution (Pub. Res. No. 10, 73rd Congress), the purpose of which was "To assure a uniform value to the coins and currencies of the United States":

Whereas the holding of or dealing in gold affect the public interest, and are therefore subject to proper regulation and restriction; and

Whereas the existing emergency has disclosed that provisions of obligations which purport to give the obligee a right to require payment in gold or a particular kind of coin or currency of the United States, or in an amount in money of the United States measured thereby, obstruct the power of the Congress to regulate the value of the money of the United States, and are inconsistent with the declared policy of the Congress to maintain at all times the equal power of every dollar, coined or issued by the United States, in the markets and in the payment of debts. Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,

That (a) every provision contained in or made with respect to any obligation which purports to give the obligee a right to require payment in gold or a particular kind of coin or currency, or in an amount in money of the United States measured thereby, is declared to be against public policy; and no such provision shall be contained in or made with respect to any obligation hereafter incurred. Every obligation, heretofore or hereafter incurred, whether or not any such provision is contained therein or made with respect thereto, shall be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts. Any such provision contained in any law authorizing obligations to be issued by or under authority of the United States, is hereby repealed, but the repeal of any such provision shall not invalidate any other provision or authority contained in such law.

(b) As used in this resolution, the term "obligation" means an obligation (including every obligation of and to the United States, excepting currency) payable in money of the United States; and the term "coin or currency" means coin or currency of the United States, including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations.

SEC. 2. The last sentence of paragraph (1) of subsection (b) of section 43 of the Act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes," approved May 12, 1933, is amended to read as follows:

"All coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations) heretofore or hereafter coined or issued, shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, except that gold coins, when below the standard weight and limit of tolerance provided by law for the single piece, shall be legal tender only at valuation in proportion to their actual weight."

Official Statements by President Roosevelt on his Gold Policy

Message to the London Conference

ON July 2, in his message to the Economic Conference in London, President Roosevelt wrote:

"I would regard it as a catastrophe amounting to a world tragedy if the great Conference of Nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should, in advance of any serious effort to consider these broader problems, allow itself to be diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only. Such action, such diversion, shows a singular lack of proportion and a failure to remember the larger purposes for which the Economic Conference originally was called together.

"I do not relish the thought that insistence on such action should be made an excuse for the continuance of the basic economic errors that underlie so much of the present world-wide depression.

"The world will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only.

"The sound internal economic system of a nation is a greater factor in its well being than the price of its currency in changing terms of the currencies of other nations.

"It is for this reason that reduced cost of government, adequate government income, and ability to service government debts are all so important to ultimate stability. So, too, old fetishes of so-called international bankers are being replaced by efforts to plan national currencies with the objective of giving to those currencies a continuing purchasing power which does not greatly vary in terms of the commodities and need of modern civilization. Let me be frank in saying that the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc.

"Our broad purpose is the permanent stabilization of every nation's currency. Gold or gold and silver can well continue to be a metallic reserve behind currencies, but this is not the time to dissipate gold reserves. When the world works out concerted policies in the majority of nations to produce balanced budgets and living within their means, then we can properly discuss a better distribution of the world's gold and silver supply to act as a reserve base of national currencies. Restoration of world trade is an important partner, both in the means and in the result. Here also temporary exchange fixing is not the true answer. We must rather mitigate existing embargoes to make easier the exchange of products which one nation has and the other nation has not.

"The Conference was called to better and perhaps to cure fundamental economic ills. It must not be diverted from that effort."

The October Radio Address

ON October 22, in a radio address, President Roosevelt said:

"Finally, I repeat what I have said on many occasions, that ever since last March the definite policy of the

Government has been to restore commodity price levels. The object has been the attainment of such a level as will enable agriculture and industry once more to give work to the unemployed. It has been to make possible the payment of public and private debts more nearly at the price level at which they were incurred. It has been gradually to restore a balance in the price structure so that farmers may exchange their products for the products of industry on a fairer exchange basis. It has been and is also the purpose to prevent prices from rising beyond the point necessary to attain these ends. The permanent welfare and security of every class of our people ultimately depends on our attainment of these purposes.

"Obviously, and because hundreds of different kinds of crops and industrial occupations in the huge territory that makes up this nation are involved, we cannot reach the goal in only a few months. We may take one year or two years or three years.

"No one who considers the plain facts of our situation believes that commodity prices, especially agricultural prices, are high enough yet.

"Some people are putting the cart before the horse. They want a permanent revaluation of the dollar first. It is the Government's policy to restore the price level first. I would not know, and no one else could tell, just what the permanent valuation of the dollar will be. To guess at a permanent gold valuation now would certainly require later changes caused by later facts.

"When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation. I said that in my message to the American delegation in London last July. And I say it now once more.

"Because of conditions in this country and because of events beyond our control in other parts of the world, it becomes increasingly important to develop and apply the further measures which may be necessary from time to time to control the gold value of our own dollar at home.

"Our dollar is now altogether too greatly influenced by the accidents of international trade, by the internal policies of other nations and by political disturbance in other continents. Therefore, the United States must take firmly in its own hands the control of the gold value of our dollar. This is necessary in order to prevent dollar disturbances from swinging us away from our ultimate goal, namely, the continued recovery of our commodity prices.

"As a further effective means to this end, I am going to establish a government market for gold in the United States. Therefore, under the clearly defined authority of existing law, I am authorizing the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view, we shall also buy or sell gold in the world market.

"My aim in taking this step is to establish and maintain continuous control.

"This is a policy and not an expedient.

"It is not to be used merely to offset a temporary fall in prices. We are thus continuing to move towards a managed currency.

"You will recall the dire predictions made last Spring by those who did not agree with our common policies of raising prices by direct means. What actually happened stood out in sharp contrast with those predictions. Government credit is high, prices have risen in part. Doubtless prophets of evil still exist in our midst. But government credit will be maintained and a sound currency will accompany a rise in the American commodity price level."

Executive Order of October 25

On October 25, the President issued the following executive order lightening the restrictions contained in his order of August 29:

By virtue of the authority vested in me by Section 5 (b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to Provide Relief in the Existing National Emergency in Banking and for other Purposes," I, Franklin D. Roosevelt, President of the United States of America, do declare that a period of national emergency exists, and by virtue of said authority and of all other authority vested in me, do hereby issue the following Executive Order:

Section 1. The Executive Order of August 29, 1933, relating to the sale and export of gold recovered from natural deposits, is hereby revoked; provided, however, that the Secretary of the Treasury is authorized to sell in accordance therewith gold received on consignment for sale on or before the date of this Executive Order.

Sec. 2. The United States Mints and Assay Offices are hereby authorized, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, to receive on consignment gold which the Mint or Assay Office to which the gold is delivered is satisfied has been recovered from natural deposits in the United States or any place subject to the jurisdiction thereof.

Sec. 3. The Reconstruction Finance Corporation is authorized, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, to acquire gold which has been received on consignment by a United States Mint or Assay Office, and to hold, earmark for foreign account, export, or otherwise dispose of such gold.

Sec. 4. The Executive Order of August 28, 1933, relating to the hoarding, export, and earmarking of gold coin, bullion, or currency and to transactions in foreign exchange, is hereby amended to permit, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, the export of articles fabricated from gold.

Sec. 5. The Secretary of the Treasury is hereby authorized and empowered to issue such regulations as he may deem necessary to carry out the purpose of this Executive Order.

Sec. 6. This Executive Order and any regulations issued hereunder may be modified or revoked at any time.

PRO

Will the Roosevelt Gold Policy Raise the Price of American Products?

by Professor G. F. Warren and F. A. Pearson

Arguments Favoring

The price of a commodity is a ratio of two values. It is the ratio of the supply of and demand for gold to the supply of and demand for another commodity. The average price of all commodities is the ratio of the supply of and demand for gold to the supply of and demand for all commodities. If the explanation of the depression is not to be found in the supply of commodities, we must turn to one of the other three factors for an explanation.

The demand for commodities was good at the time the collapse occurred. The severe unemployment has reduced demand, but this is primarily a result of rather than the initial cause of the depression. The reduced demand resulting from depression is in turn a cause of further depression.

The supply of gold has not been keeping pace with the normal growth of business, but the supply of gold is sufficient to support prices at about the pre-war level with all the world back on a gold basis, and gold used with pre-war efficiency.

The demand for gold was so low as to allow prices on a gold basis to double. This was followed by a demand so high as to cause the present depression.

In 1850, world monetary stocks of gold amounted to 54 million ounces. By 1870, this had much more than doubled. In the next 20 years, only a small increase occurred. On an 1880-1914 base, the world stocks for 1850 are represented by 23, and in 1870 by 57. In this same period, the world production of all other commodities increased from 22 to 42. Since the rate is very uniform at about 3.15 per cent, production doubles in about 22 years. In 1850, the ratio of gold stocks to production was 105. Twenty years later, the ratio was 136. Prices in England for these two years were 105 and 131.

When the price level falls, world production is reduced by unemployment so that gold stocks divided by production gives a high answer. This is a temporary situation resulting from low prices and is generally one factor in price recovery. The law of the relationship of gold to prices may be stated as follows:

$$\frac{\text{World gold stocks}}{\text{Production of all basic commodities}} = \text{Wholesale prices of all commodities.}$$

The same principle holds for the United States, but previous to 1870 the relationship was not so close as was the case of England.

Since gold is an important industrial commodity, the use of which increases at about the same rate as other basic commodities, the production must be sufficient to add 3.15 per cent to monetary stocks and take care of industrial demand. This normally requires a production equivalent to 5.6 per cent of monetary stocks. A five-year production of more than 5.6 per cent is followed by a rise in prices. A production which is less than this amount is followed by declining prices.

Since monetary stocks should be about 18 times production, an excess or deficiency in production has a slow effect on gold stocks. When prices are lagged 13 years, there is a close relationship between production and prices. This lag is, of course, accidental. If the gold supply were doubled in a single year, prices would double quickly. It happens that the rates of production have been such as to cause the 13-year lag.

World gold stocks are now about sufficient to support pre-war prices with the world back on a gold basis and gold used with pre-war efficiency. With monetary chaos, efficiency is not to be expected. Individuals, banks and nations demand high reserves. If the price level were adjusted to the gold supply the production is about sufficient to cause prices to decline one per cent per year.

The relationship of the supply of gold to the purchasing power of gold is practically the same as the relationship of the supply of corn, oats, wheat, or hay to their purchasing powers. That is, a 20-per cent shortage in supply increases the purchasing power about 25 per cent. This relationship if extended is a one to two relationship; that is, a halving of the supply would double the purchasing power, and a doubling of the supply reduces the purchasing power one-half.

The value of gold is determined by the supply of it and the demand for it. Over long periods of time, the supply is extremely variable. Demand was extremely variable in the Napoleonic War and World War periods. Price is fixed by law regardless of the supply of it or demand for it.

It is not sufficient to expand bank credit as rapidly as the production of commodities increases. It must expand more rapidly if prices are to be stable. For the United States, a 4 per cent increase in physical volume of production required a 5.5 per cent increase in credit for stable prices.

The problem to explain is why prices rose, not why they fell. The reason why prices on a gold basis more

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Will the Roosevelt Gold Policy Raise the Price of American Products?

CON

Arguments Opposing

by Leo Pasvolsky
Member, Advisory Council
Brookings Institution

AT various times many countries have had depreciated exchanges and a consequent enhancement of the price of gold in terms of their national paper money units. In recent years, moreover, a number of countries have permanently devalued their currency units. Have commodity price levels in these countries shown a tendency to adjust themselves quickly and in precise proportion to changes in the price of gold? A few typical cases will be examined.

Great Britain and Sweden abandoned the gold standard in September 1931, and Japan in December of that year. In Great Britain and Sweden, although the currency depreciated by roughly 30 per cent, which means a rise in the price of gold of more than 40 per cent, there was a slight decline in the level of commodity prices. In Japan the price of gold more than doubled; yet the general level of commodity prices registered a rise of only 19 per cent.

The failure of commodity price levels in Great Britain, Sweden, and Japan to respond fully to the rise in the price of gold, as measured by the depreciation of the pound, the krona, and the yen, cannot be explained by a corresponding rise in the *world value* of gold during the 18 months in question. Changes in the world value of gold would be indicated by the movement of commodity prices in countries still on the gold standard, the most important of which were the United States and France. During this period prices in the United States fell by 16 per cent, and in France by 18 per cent. With allowance for this factor the commodity price levels in Great Britain and Sweden should, in accordance with the theory, have been approximately 120 instead of 99 and 98 respectively, and in Japan about 190 instead of 119. With reference to Great Britain and Sweden the most that can be said is that depreciation of the currency and the consequent rise in the price of gold prevented as large a decline in commodity prices as might otherwise have occurred during that period. In the case of Japan, an enormous rise in the price of gold was accompanied merely by a very moderate rise in the commodity price level.

The recent experience of the United States shows results similar to those just indicated. The foreign exchange rate of the dollar ceased to be stable on April 20. The changes in the price of gold and in the general commodity price level during the seven months subsequent to that date are shown in the chart on page 118. Weekly averages are used for both sets of data. The maximum rise in the price of gold amounted to 65 per cent; the maximum rise in the commodity level was just under 20 per cent.

It remains to examine the experience of such countries as France and Italy, which have for some years been operating on the basis of *devalued* currency units. Since 1927 the gold content of the French franc has been fixed at almost exactly one-fifth of the pre-war weight. According to the theory the commodity price level should have become almost five times that of the United States (which was based on an unchanged currency unit) and should have moved during the six years 1927-32 in exact proportion with American prices at the ratio of five to one. Similarly, the Italian lira has had a gold content equal to slightly less than one-fourth of its pre-war weight; hence the Italian price level should have adjusted itself at about four times the American level.

An assertion to the effect that this is precisely what has occurred is found in the recent book by Warren and Pearson. However, the data which they present do not support this assertion. While French and Italian prices have in fact been much higher than American prices the ratios have shown neither uniformity nor mathematical precision. As shown by the Warren and Pearson diagram, the ratio between the French and American price levels varied, during the years 1927-32, from 4.2:1 to 4.4:1; the ratio between the Italian and American price levels fluctuated between 3.0:1 and 3.6:1.

It is evident that whether the period of depreciation of the currency unit has been only a few months, as in the United States, or a year and a half as in Great Britain, Sweden, and Japan, there is no close correspondence between changes in the price of gold and changes in the commodity price level. Even over a period of years following a definite devaluation of currency units, when any lagging tendency would be completely overcome, there is no mathematically precise relationship between commodity prices and the reduced content of the currency unit.

The price *level* is merely a composite of the prices of individual commodities and groups of commodities. A change in the price of gold can, therefore, affect the price level only through changes which it might produce in the prices of individual commodities and groups of commodities. Hence, unless the effect of currency depreciation is to exert a uniform influence upon the prices of all classes of commodities or to raise some groups of prices sufficiently above the new level to offset the failure of other groups to rise proportionally, there is no reason to expect a mathematical adjustment of the movement of the price level to the depreciation of the currency unit.

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PRO

Warren *Cont'd*

than doubled from 1915 to 1920 was that most of the world stopped using gold and stopped bidding for it. This reduced the value of gold in the few markets that were open to it. The attempt to reestablish the gold standard—a process which was never completed—caused the frantic demand for gold. France returned to the gold basis in 1928, and the collapse came soon after. Many countries are now off the gold basis, but apparently will keep bidding for gold. If England should definitely demonetize gold, it would raise the price level in this country. Some temporary increase might occur without permanent abandonment. Our situation is such as would have occurred if the world had suddenly acquired a doubled supply of gold and after becoming adjusted to it, had lost the extra supply in two successive collapses.

We have had one previous experience of a similar nature. The French Revolution broke out in 1789, and metal currency was abandoned. England also suspended metal payments in 1797. The United States continued on a metal basis until the War of 1812. Our prices rose 70 per cent from 1789 to 1796. The resulting prosperity and good will had much to do with the success of Washington's administration and the firm establishment of the Union.

England returned to the metal basis in 1821, and our prices on a metal basis fell 31 per cent from 1818 to 1821. Price chaos continued with a downward tendency.

Because of reduced demand for gold, our debt and tax structure before the Panic of 1929 was adjusted to a commodity price level 40 to 50 per cent above pre-war. The collapse has reduced property values so much that the debts are about equal to the national wealth and cannot be paid. The price level must be raised to the debt and tax level or the debt level must be lowered to the price level. There is no alternative. This is a matter of grim reality that cannot be cured by psychology, confidence or government lending.

We must choose between deflation and reflation. No country likes to change its monetary system, nor does any country like to go through wholesale bankruptcies and continue to have millions of unemployed. Our choice is not between two desirable things. It is between two undesirable things. Merely raising the well-known objections to either procedure does not commend the other. The question is: "Which is worse?"

If we wish to go through with deflation, we may as well proceed with the bankruptcies, foreclosures, and public defaults and get them over with. Merely postponing by lending some money or attempting to hold up the price of this or that thing, will accomplish very little.

Almost any nation can stand a 10-per cent deflation; and of course, no nation could stand a 90-per cent deflation. Somewhere between these, there is a limit for any country. There is considerable doubt as to whether a deflation process so drastic as that now undertaken can be carried through.

This is a very different problem from deflating after the Civil War when we were the only important country that was off the metal standard. Now we are the only important country that is attempting to maintain the pre-war weight of gold in its currency. In the first three years of the Panic of 1873, prices of all commodities dropped 18 per cent. In the first three years of this panic, prices dropped 30 per cent. The liquidation that must be gone through with is correspondingly greater.

For five years before the War, the average amount of monetary circulation plus bank deposits per dollar of gold in the United States was $11.23. From 1923 to 1927 this averaged $11.56. It reached $14.92 in 1920 and $14.13 in 1928. We know what happened in each case.

A gradual and slow increase in the amount of monetary circulation plus bank deposits per dollar of gold in the United States has been taking place for many years. There is no indication that the Federal Reserve system has speeded up this normal growth of circulation plus credit per dollar of gold. Whenever the normal is much exceeded, a reaction occurs.

Some persons believe that the Federal Reserve system is to blame for the decline in prices and that there is gold enough to maintain predeflation prices if credit were properly managed. The evidence indicates that a rise in the value of gold was inevitable with the return of the world-wide demand for it. Credit management might have prevented a part of the stock market boom. No evidence has been found that credit management could have prevented a decline in commodity prices, or that the 1929 commodity prices can be restored by credit management and still maintain the present price of gold.

By the management of credit, it is possible to throw commodity prices out of line with gold by a limited amount. There is no indication that any permanent change in this relationship can be accomplished in this way. Over-expansion of credit brings on a reaction, and so does over-contraction of credit. The policy of the federal government in 1932 was based on the theory that prices could be raised by credit. The Reconstruction Finance Corporation lent money to many agencies in the expectation that credit expansion by the Reconstruction Finance Corporation and the Federal Reserve banks would raise prices and restore equities back of securities and start business activity. The policy did check contraction, at least temporarily; but only a rise in the price structure can stop bankruptcies and start employment. It is not possible to expand credit sufficiently to do this and still maintain the present price of gold.

Many persons whose studies have been limited to short-time credit have come to look upon gold as merely an interesting tradition. They think that any price level can be maintained by the proper handling of credit. If this were true, the gold standard would mean nothing. The limits of credit expansion with a given amount of gold are very definite. These limits are wide enough to allow credit expansion and contraction to be an important factor in business cycles. We are not dealing with a business cycle. To attempt to expand credit enough to restore the price level means making gold cheap. The only way that one

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Pasvolsky *Cont'd*

The diverse character of price movements accompanying depreciation is illustrated by experience in Sweden. A detailed study of the effects of currency depreciation on commodity prices in that country recently led a competent Swedish investigator, Eric Lindahl, to conclude:

"The depreciation of the Swedish krona after the abandonment of the gold standard has brought with it increases in price for certain imported goods; a check in the fall of prices for certain other international goods; but a merely retarded fall for a third group, mainly consisting of exports. In the case of purely domestic commodities, the falling tendency has made itself almost generally felt to about the same degree as before."

It is not difficult to explain why currency depreciation should affect the prices of different groups of commodities in such varying degrees. As has already been shown, when gold is abandoned as the standard, or when the weight of the monetary unit is reduced, the change is manifested in foreign exchange quotations. Hence the depreciation of a currency in the foreign exchanges exerts a direct influence upon the prices of those commodities which enter into international trade. When a country's exchange rate declines, the prices of imports and exports tend to rise in terms of the national currency.

For example, Americans who import goods from abroad have to pay for their purchases in foreign currencies, and when the exchange value of the dollar depreciates they have to offer more paper dollars than before for the same amounts of foreign currencies. Hence, if they are not to suffer loss they must mark up the selling price of the imported goods. It will be evident also that in so far as higher priced imported materials are used in domestic manufacture one element of cost is raised which tends to produce a rise in the price of the goods affected.

The effect of currency depreciation on the prices of goods exported from the country works out in a somewhat different manner. In general, when the dollar depreciates in the foreign exchanges, the foreign currencies will, immediately speaking, buy more American goods than before. The result is a stimulation of demand for American exports and a possible rise in their prices as expressed in paper dollars. The rise in the early stages is usually swift because speculators hasten to buy up exportable commodities in anticipation of the price rise. These effects appear with special rapidity in the case of such important staples as wheat, cotton, and tobacco, which are sold in well-organized international markets. The prices of such commodities are particularly subject to speculative influences, and daily price quotations concerning them are highly sensitive to many influences, including the rate of foreign exchange.

There are, however, certain factors which tend to limit the extent to which the prices of both import and export commodities will respond to changes in the foreign exchange rate. On the import side if sales to the United States are not to be curtailed by rising prices, foreigners in many cases may feel constrained to reduce their basic prices. In the case of exports the demand for American products is stimulated only so long as the price rise is less than the amount of exchange depreciation; when prices rise to the full extent of the depreciation there is no longer any competitive advantage in buying here rather than elsewhere. Even before this occurs, the advantage obtained by American exporters might tend to be counteracted by special trade barriers put up by the importing countries, by enforced price cutting on the part of competing countries, or by parallel depreciation of foreign currencies. It is limiting factors such as these which explain the failure of both import and export prices in a country with depreciated currency to rise in any precise relationship to the depreciation, and to exert any predictable upward influence on the general price level.

The depreciation of the exchange rate has only an indirect influence upon the prices of those commodities which are produced and consumed domestically. For example, in the production of automobiles the largest elements of cost are labor and domestically produced materials. Wages are not immediately affected by exchange depreciation and the cost of domestically produced materials is directly affected only in case such materials are also produced for export, as in the case of cotton. The costs of automobile manufacture would thus in no way be proportionally increased; and hence it would not be necessary for the price to be advanced proportionally to the currency depreciation in order to maintain profits. Nor would the purchasing power with which to buy higher priced automobiles be immediately available.

It is only gradually that the prices of goods, produced domestically and consumed mainly within the country, feel any effect from exchange depreciation. The rising prices of goods entering into international trade come, in some measure and with the passage of time, to affect domestic prices generally, through increasing costs; and in due course wage rates also have to be adjusted upward. The possible influence of changes in the price of gold upon the prices of commodities which are not directly affected by exchange depreciation is thus even less precise and less predictable than in the case of exported and imported commodities.

In the United States the prices of coal and chemicals have declined since April, and the prices of iron and steel, automobiles, and agricultural implements have risen but little. The prices of other commodities have shown a wide range of fluctuation, some of them remaining persistently below the price of gold, some maintaining a position above it, and some swinging up and down without any apparent relation to it. The largest fluctuations have occurred in the prices of such highly sensitive and speculative international commodities as rubber, wheat, cotton, and hides.

Speculative influences were extremely active during the first three months of the period under examination, that is, until the middle of July. The prices of many impor-

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PRO

Warren *Cont'd*

nation can make gold cheap is to reduce the world demand for it. To assume that gold is going to be used with more than pre-war efficiency after a generation of chaos has no basis in recent experience nor in future probabilities.

Any means of restoring prices will probably require suspension of gold payments while the plan is being discussed. This has been done now by all other important countries except those that have already cut the weight of gold in their money.

This does not mean wild inflation. The only cases of wild inflation have come after government bankruptcy. During the American and French Revolutions, both countries inflated until the money was "not worth a Continental." Similar inflation occurred during the German Revolution and attempts to pay reparations. Russia is in a revolutionary period and has had violent inflation.

England suspended gold payments for 24 years in the Napoleonic War period. She also suspended gold payments from 1914 to 1925 and now has suspended for more than a year. This makes a total of 36 out of 136 years off gold, but no case of wild inflation has occurred.

The United States has suspended gold payments four times, but even in the Civil War did not have wild inflation. Our average prices for the year 1864 were 193. Prices in England on a gold basis were 127. The worst inflation that has occurred since the Revolutionary War was on a gold basis in 1920, when prices averaged 226.

There is no danger of wild inflation except following revolution. If we should be forced to suspend gold payments, there is no cause for alarm.

After a country has suspended gold payments, it can establish any desired price level by the remonetization of silver, reduction of weight of gold in the monetary unit, managed currency, or compensated dollar.

The effects of rising prices are the same regardless of the cause. To illustrate these effects, let us assume that the value of the dollar was reduced one-third by definite abandonment of gold by other countries; by a sudden addition of 50 per cent to the world monetary stocks; by raising the price of gold by 50 per cent; or by suspension of the gold standard and sufficient expansion of currency and credit to raise prices by 50 per cent.

Innumerable charges that have not declined would not rise, but would be relieved of the necessity of declining. They are already adjusted to the price level that would be established. Among these are public and private debts, freight rates, telephone charges, and the like. Total tax payments would increase because taxes could be paid. Therefore public debts would be paid and tax rates would be lowered.

Ocean freight rates would not change materially. Therefore prices of products such as cotton and wheat at export points would rise a little more than 50 per cent. The following illustrations are based on prices for December, 1932. If wheat at New York rose from 64 to 96 cents, wheat in Nebraska would rise about 32 cents. There have been so many examples of just such a change that we can be sure of the effect on the Nebraska price. But this would more than double the Nebraska price. Corn at New York City would also increase about 50 per cent or about 21 cents per bushel. This would much more than double prices on Iowa farms.

The above changes would occur without any change in prices in foreign countries. The increased business which rising prices cause would result in still further price increases. These would be very decided increases for basic commodities.

Even with no improved prospects for business, prices of industrial stocks would increase about 50 per cent. Prices of such stocks in London and New York keep on the same basis in ounces of gold. On December 15, 1932, 1.6 ounces of gold were required to buy a share of United States Steel stock in London, and 1.5 ounces were required in New York. On the same day, 0.73 ounces of gold were required to buy a share of Pennsylvania Railway stock in London and 0.71 ounces in New York. Of course, a rise in the price level would stimulate business and cause much more than a 50 per cent increase in security prices. A bale of cotton was worth 1.5 ounces of gold in New York and 1.8 ounces in England.

In general, those prices which have not declined would be relieved of the necessity of declining and prices of basis commodities far from market would rise most. These effects are the same as a rise in prices brought about by any other cause.

If this were accomplished by raising the price of gold, there would be one major difference—gold would also rise in price. Expectation of such a change would probably result in hoarding gold. It would, however, be much more profitable to hoard basic commodities such as lumber, cotton, corn, wheat, copper, and the like, at points far from market. It would also be more profitable to hoard common stocks than gold. With everything else at panic prices, gold would be one of the least profitable things to hold. If a change were made in the price of gold, it would probably be preceded by the suspension of gold payments as has been the case in most of the world, or would probably require the suspension of such payments while the subject was being discussed.—*Extracts, see 1, p. 32.*

by Hon. Elmer Thomas

U. S. Senator, Okla., Democrat

At this time, with some four billion three hundred and twenty-five millions of monetary gold, with a vast storehouse of silver, with billions of printed currency in reserve, with credit unimpaired and with the policies of Washington, Hamilton, Lincoln and Wilson to guide us, who can say that an expansion of the cur-

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tant commodities were then rising rapidly, and the general price level was moving upward. Since the middle of July, there has been little, if any, correspondence between the two movements. Apparently speculation had spent most of its force.

The price-making process is also extremely complex in character, and the movements of the price level are subject to a large variety of influences other than the price of gold. Even if one were to grant that the simple gold theory of commodity prices might possibly be valid in a community using gold as its only form of money, that theory is wholly inapplicable to the complex modern world, in which the monetary supply consists primarily of credit instruments and in which the course of commodity prices is greatly affected by the state of business psychology, the interaction between credit and fiscal policies and general economic conditions, and many other monetary and non-monetary factors.

In this connection, it should be borne in mind that in the United States numerous other devices for stimulating a rise in prices are being currently utilized. For example, the output of certain agricultural commodities is being curtailed by the Agricultural Adjustment Administration; costs of manufacture are being raised by the National Recovery Administration; and purchasing power is being expanded through the expenditure of public funds in connection with public works and relief activities. At the same time the policy of cheapening credit through open market operations and other devices has also been followed.

Even if one were to argue that these policies, singly or conjointly, have had no effect whatever in raising prices in the United States, and that the rise which has occurred is the result solely of the depreciation of the dollar, it still remains true that the extent of the rise in the general level of prices shows little correspondence with the rise in the price of gold. The great disparity between the two movements furnishes conclusive evidence that the theory of automatic adjustments between changes in the price of gold and changes in the commodity price level is without scientific validity. As a practical matter, the most that can be said for the theory is that the depreciation of the currency may, under conditions at present existing in the United States, help to bring the prices of some agricultural commodities entering into export trade, which have been heavily depressed, into a more satisfactory adjustment with other prices. However, a monetary policy based on the depreciation of the currency unit has far-reaching economic repercussions.

The foregoing analysis leads to two primary conclusions: The first is that no definite, predictable rise in the commodity price level can be assumed to follow a given depreciation of the currency. Such rise as occurs is not general or horizontal in character, representing an automatic adjustment of all commodity prices to alterations in the price of gold. The price changes that take place begin with commodities passing into international commerce, and even these changes do not necessarily correspond closely with the depreciation of the currency. Their effect upon the general level of costs and prices within the country is indirect and, at best, slow. The extent to which the general domestic price level will rise is affected by a large variety of factors in the general business and fiscal situation, and the specific influence of currency depreciation cannot be dissociated from the operation of these other factors.

The second conclusion is that, once a desired price level had been obtained, by whatever means, no evidence exists that thenceforth that level can be automatically controlled by altering the price of gold. This is because the theory assumes that the commodity price level changes in direct proportion to changes in the price of gold, such changes representing an automatic revaluation of commodities. Our analysis of the experience of a number of countries clearly indicates that no such automatic revalution occurs. —*Extracts, see 5, p. 32.*

By Edwin Walter Kemmerer

Professor, International Finance, Princeton University

WITH the broad assumption that, in a gold standard country, variations in the price level express changes in the value of gold and the value of goods, and that the value of gold in terms of goods is the resultant of the interaction of the forces of demand and supply, on gold and on goods, I am in full agreement.

There are two points I wish to discuss, the first very briefly and the second a little more fully. The first is the claim that for seventy-five years before the World War, prices rose if the world's stock of monetary gold increased faster than the production of other things, and fell if gold increased less rapidly. The second is the claim that this relationship will continue to prevail in the future if the world continues on anything like the pre-war gold standard.

The period studied is from 1839 to the present time. However, during forty of these ninety-three years, the United States was on a bimetallic standard or a paper money standard, not a gold standard. Moreover, the relationship between the world's stock of monetary gold and commodity prices has not held at all since 1914 either in England or the United States. The correlation, furthermore, in both countries was rather weak during most of the time between 1839 and 1873, except for a few years immediately after the Californian and Australian gold discoveries, when the movements of the price level were dominated by these enormous outpourings of new gold. It appears, therefore, that the correlation in question is significant chiefly for the period of falling prices from 1873 to the early nineties, and the subsequent period of

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PRO

Thomas *Cont'd*

rency just enough to restore the 1926 price level will mean uncontrolled inflation and lead us to French, Russian and German chaos?

Every citizen who has the faintest conception of our monetary problem shudders at the thought of 'uncontrolled inflation. The nations which have fallen under "a flood of irredeemable currency" were governments without gold, silver or credit. Fortunately such is not the status of America.

As a remedy for our economic ills we have tried deflation and more than ten billion dollars of added Federal indebtedness is only one of the results.

The annual income of our people has been reduced from ninety to some forty billion dollars.

Unemployment increased until we had some fourteen million men out of work and more than twenty million men, women and children in the public bread lines.

Of deflation we have enough. We now demand an expansion of the currency.

Who is there among us who can say that it is not yet time to act?

The record before us demonstrates that we have but two possible roads open to travel. One is a continuation of deflation leading to bankruptcy and repudiation of debts, public and private.

The other road is an expansion of the currency leading to more money; hence, cheaper money, higher prices for commodities, wages and salaries, and thereby reinvesting the people with added buying power.

More money means the payment of taxes, interest and debts.

More money means the saving of homes, farms and factories.

More money means the restoration of personal, corporate, city, county, state and national solvency.

What progress have the Deflationists to offer?

Without a plan they are at Washington borrowing the people's credit and spending some of the money in parading Russian and German Inflation Ghosts before the public.

Let me now outline briefly the program I am advocating.

Today the President has practically unlimited power to coin money and to regulate the value of the dollar.

At this hour he is exercising the powers conferred.

Through the Federal Reserve Board and banks he is purchasing bonds, paying for same with Federal Reserve money.

Through the Reconstruction Finance Corporation he is buying gold for the single purpose of forcing down the value of the paper dollar so that at a later date he can stabilize the value of such dollar in terms of gold.

The President is exercising the third power conferred by issuing silver certificates against silver recently received as partial payment of interest due from foreign governments.

The President has other powers in reserve—some of which he may never have to use.

The following things remain to be done:

First: The policy of purchasing gold at a constantly increased price should be continued until the value of the paper dollar reaches that level of value thought to serve best the interests of all our own people.

Second: A like policy should be established relative to silver. The government should begin the purchase of silver on an increasing scale of price so that when the Congress convenes additional legislation may be enacted providing for a wider use of silver as a base for our monetary system.

Third: The program of public works should be continued until the problem of unemployment is solved.

Fourth: When the gold dollar has been revalued in terms of commodity and wholesale prices then our government will be ready to confer with other governments relative to returning simultaneously to the gold standard, or to some monetary standard which may be agreed upon.

Fifth: When this program is approved and carried out we will have ready to be returned to circulation our vast amount of monetary gold, which, when revalued, will amount to some eight billions of dollars. This gold is not new money. It is only a commodity, but, when revalued and again made into money, the effect upon business, trade and prosperity will be comparable to the discovery of at least one-half that amount of new gold.

If this program is sound; if these conclusions are justified; and if my vision is accurate, we will continue to work out of this depression and before we are fully aware we will be entering upon a new period of development and prosperity unequalled in the history of our country.

In conclusion, let me say that I have every confidence that the President and the Congress will readjust our financial system and monetary policy so as to serve the best interests of the people and to promote the general welfare of the United States.—*Extracts, see 3, p. 32.*

by Hon. Burton K. Wheeler
U. S. Senator, Montana, Democrat

As far as I am concerned, I do not want to see this country accept fiat money. I do not want to see us have to go through the experiences that Germany went through. I do not want to see the creditor class of this Nation wiped out as they were wiped out in Austria and in Russia. I am pleading not to exploit the creditor class, but I am pleading to stop the exploitation of the debtor class by the creditor class at this very moment.

In Germany the inflation raised the paper value of property and commodities to such an extent that debts, being fixed in terms of marks, soon lost all their former ratio of value. In the United States the deflation has de-

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rising prices from the early nineties to 1913. It is the generally accepted economic opinion today, I believe, that from 1873 to 1895 the decline in the price level in gold standard countries is to be explained chiefly on the ground that for about twenty years beginning with 1871 the world's previously high level of gold production was not maintained, while the demand for gold was greatly increased, chiefly by the world's shift during those years from bi-metallic and paper money standards to the gold standard. Few economists, likewise, would deny the claim that from about 1896 to 1913 the rapidly rising price level in gold standard countries is to be explained chiefly, not by increasing economies in the use of gold, but by the deluge of gold coming into the world's markets from South African mines.

Aside from the discontinuance of bi-metallism in the world about 1873, and the return of the United States to the gold standard in 1879, there were few important changes in currency and banking practices in important gold standard countries between 1873 and 1913 of a character that would either greatly increase the world's demand for gold, or greatly decrease it through effecting important economies in the use of gold. Many countries, however, during this period substituted the gold standard for silver or paper money.

Since 1913, however, the situation has greatly changed. Enormous economies in the use of gold have developed, and I am inclined to believe will continue to develop during the years immediately before us, with the result that these economies since 1913 have been, and in the future will be, an exceedingly important factor in the situation—a much more important factor than were the economies in the use of gold that developed prior to 1913. I will merely mention the more important of these economies. They are:

(1) Gold coin which widely circulated in most gold standard countries prior to the World War has practically ceased to circulate.

(2) The gold exchange standard has taken the place of the gold coin standard in a great many countries. While it may be discontinued in some of the larger countries, its economies are so great that it almost certainly will be restored in the smaller countries, colonies and dependencies when the world again returns to a gold basis. A general idea of how great these economies may be is shown in the following illustration:

Assume a South American country having a central bank which holds in the form of deposits the reserves of the commercial banks of the country. Assume a reserve requirement of 50 per cent. If the currency were on a gold coin or gold bullion basis, a reserve of $1,000 of gold would need to be held in the central bank's vault against a deposit of $2,000 of commercial bank funds. If, however, this central bank, with its 50 per cent reserve requirement were on a gold exchange standard basis, and were permitted to hold all of its legal reserves in the form of a deposit in a New York City National bank against which this New York national bank would keep the required reserve of 13 per cent, and if this 13 per cent were kept in the form of a deposit with the New York Federal Reserve Bank, against which that bank would be required to keep 35 per cent in lawful money, which we will assume to be gold; then the actual amount of gold held somewhere in support of these $2,000 of deposits in the foreign central bank would be $45.50 instead of $1,000 under the gold coin or gold bullion standard system. The reduction would be from 50 per cent to a little over 2½ per cent. Of course this figure is not exact because in practice each bank in turn would keep more than the legal minimum reserve.

(3) The continually increasing establishment and development of central banks, of which the American federal reserve system, established in 1914, is the most important. The modern central bank is a great economizer of gold.

(4) The establishment of the Bank of International Settlements.

(5) The increasing custom of international clearing of gold, and of earmarking gold, thereby avoiding the tying up of so much gold as formerly in transit.

(6) The enormous increase in the use of checks throughout the world, even in the more backward countries. The efficiency of a gold dollar held in reserve in an American federal reserve bank is something like 40 times as great as that of the same dollar in hand-to-hand circulation.

I can find no evidence to support the conclusion that the world is today either experiencing or facing in the near future anything that can be called an enduring shortage in the supply of monetary gold.

The principal grounds for claiming that such a shortage exists today are three: (1) the increase in the value of gold since 1929 as evidenced by the decline in the commodity price level in gold standard countries; (2) the fact that the world's gold production declined substantially during the years 1917-22, and that, although there has been a considerable recovery since that time, the world has only recently gotten back to the high production level of the period 1908-16; (3) the fact that the demand for gold increased greatly during the eleven years following the Armistice, chiefly as a result of the return of a large part of the world to the gold standard. Let us consider these reasons briefly.

The great decline in the commodity price level which we have had during the past three years came after a long period of comparatively stable commodity prices. If the world were suffering from a permanent scarcity of monetary gold, this scarcity would be likely to be felt in a slow and continuing decline in prices as it was in the period 1873-96, rather than in a catastrophic drop like the one we have recently had following a long period of comparatively stable prices. In this connection, it should be noted that the comparatively stable commodity price level in the United States from 1921 to the end of 1929 was a

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pressed the dollar value of property and commodities. This, in turn, has had the effect of doubling our debts in terms of commodity dollars. In the case of the farmers' mortgages, it has raised their debts fourfold.

What I am trying to say is that money inflation or money deflation does not greatly change the real value of property, but it does shift the burden from one class to the other. That is why the big bankers and financiers in this country, whose banks are filled with money, are opposed to any form of inflation. They want to collect in full, dollar for dollar, with money that will purchase twice as much as the money they loaned.

On the other hand, the debtor wants, and is entitled to, a reasonable inflation, so that he can pay off his debts with dollars of about the same purchasing value as those that he borrowed.

It would almost seem that a wise Providence had made provision for man's monetary needs in the manner in which He has placed both silver and gold in the earth. They are distributed throughout the world, they are hidden away beneath the rivers, or they are found in small quantities in conjunction with other metals which men need. They do not rust or corrode and in every respect are ideal for coining purposes. For thousands of years they have both served the monetary needs of mankind. Then a new-fangled idea entered into the minds of some British international bankers, and for their own selfish purposes, so that they might more easily control the money and credit of the world, they persuaded or bribed the leading commercial nations of the world to base their monetary systems on gold alone. This all happened less than 100 years ago, but during this short intervening period of time it has enabled a few small groups of financiers to gain possession and control of the wealth of those nations that adopted the gold standard. Silver, after thousands of years of honorable service as money, has been demonetized, debased, stripped of all its past monetary glory, and like Ishmael of old, turned out to wander through the earth as an outcast.

In the meantime the gold produced in the world has not been sufficient to form a stable base upon which to build the monetary systems of the world.

Gold production has not kept pace with commercial expansion and increase of population. With only eleven billions of monetary gold in the world, it is utter folly to imagine that all the monetary systems of the world could possibly stand upon such a small base. As a matter of historic fact, they cannot. Since the World War more than 20 nations have been forced off the gold standard, while many others have debased their currency while still trying to remain on gold. The result has been world-wide confusion. This confusion will continue until a base is found that is large enough for all the leading nations to build their currencies upon. I predict that that base will not be gold, nor will it be silver, but it will be gold and silver at a fixed, definite ratio of value.

The passage of my bill, S. 70, for the remonetization of silver would do more to raise the world commodity price level and thereby benefit not only the farmers of this country but all classes as well, than any other piece of legislation that has been presented to the Congress of the United States.

I have recently returned from a trip through practically all of the central and western states and have noticed the tremendous change in sentiment for the remonetization of, not mere rehabilitation, of the price of silver. I have spoken before assemblages of bankers, business and professional men as well as leaders of various industries throughout the country, men who just a few short years ago would not have listened to me discuss the subject, leave alone permitting me to speak before an organization to which they belonged. They had been following blindly the supposedly inside tips put out by the international bankers to whom they had looked for leadership and guidance in financial, industrial, economic, political and even social matters, only to wake up and find that the gods which they had worshipped had feet of clay and that these men under the guise of respectability had not only misled them but had done worse—they had robbed the banks with which they were connected, defrauded the Government of the United States and taught others how they could avoid paying their just obligations to the Government.

The financial crisis now affecting the world, cannot but constitute a starting point for future economic systems. The past cannot, nor should it be revived. The monetary system which has endured up to the year 1929, has turned out to be a complete failure and the crisis now crushing down the means of our existence, that is, commercial transactions, financial exchange, and production and consumption, is an inevitable consequence of the failure of the gold standard to which the international bankers and their satellites have been wedded. It would be madness to attempt to go back to the same old methods. The gold standard, as the sole basis for currency and as the universal measure of values, is what has brought the world down to its present state of exhaustion. The World War was nothing more than one of its consequences. Inflation, over-production and lack of markets, the disasters caused by the deflation and lack of confidence now taking place and prevailing, are likewise logical and unavoidable consequences. People may say what they will, the present acute depression is solely financial in origin; any other causes are merely secondary or concurrent.

We must leave the past behind us as an historical element and must now and in the future resort to the remodelling of systems we already know and to the application of new methods to a new economic organization; if this be not done and an attempt be made to uphold to the uttermost a structure so insecure, total collapse will become imminent and will be irresistible. The era of biblical prophecy has long come to an end, but we have now scientific prophecy, which allows us by logical methods of inference and deduction, experience and the law of probabilities to analyze facts, to classify them and to build up

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high level—averaging something like 41 per cent above that of 1913.

Although the world's gold production fell off considerably during the War, and the early post-war period, the world's supply of monetary gold has increased substantially and almost continually since 1913. The world's average annual production of gold for the 8 years ending 1913 was 21,514,000 ounces; for the 8 years ending 1921 it was 19,354,000 ounces and for the 8 years ending 1929 it was 18,660,000 ounces. The average for the last periods was only 11 per cent less than for the pre-war period—which was the greatest in the world's history—and the average for the three years 1930, 1931, and 1932 was approximately 22,300,000 or an amount about 3½ per cent more than the average annual production for the 8-year period of pre-war maximum. South Africa's gold production in 1931 was the largest in its history, and its production in 1932 was 6 per cent larger than it was in 1931. Because of the decline in the cost of cyanide, machinery and labor and of other elements in the cost of producing gold, production is being greatly stimulated in existing fields, while old fields once formerly discarded are being brought back into operation. An important new field has just been discovered in South Africa and a number of less important discoveries have been made recently in other sections of the world. Nearly every gold producing area of importance in the world is now showing substantially increased production. Estimates of a few years ago of a quickly approaching shortage in the world's stock of monetary gold have not been fulfilled. Kitchin's estimate of the world's gold production for the years 1931 and 1932, which was accepted by the Gold Delegation of the League of Nations in its Interim Report of 1930, was $402 million for the year 1931. The production of that year, however, was actually $441 million. The estimate for 1932 was $410 million and the actual production for that year was $494 million.

Turning from the world's gold production to the growth of the world's supply of monetary gold absolutely and relatively to the world's production of basic commodities, we find no evidence of an enduring scarcity of monetary gold. The Federal Reserve Board's estimate of the world's stock of monetary gold in the hands of central banks and governments at the end of 1921 was $8,023 million and at the end of 1929 it was $10,297 million. This represents an average annual increase (geometrical) of about 3.2 per cent. For the 19 years 1913-32 this world's stock of monetary gold increased 144 per cent, representing an average annual increase (geometrical) of about 4.8 per cent. The studies of Carl Snyder covering the principal commercial countries of the world for the period 1865 to 1914 show a rate of increase in the physical volume of production of basic commodities—tons, bushels, yards, etc.—of approximately 3.15 per cent a year. For the 16-year period from 1913-14 to 1929-30 the annual rate of increase of basic commodities was only 1.86 per cent, and, for the approximately 9 years from early 1921 to the end of 1929 it was 3.2 per cent.

Under normal conditions, there would be no need of the world's stock of monetary gold increasing as rapidly as the world's production of basic commodities or its physical volume of business, as we have pointed out, because of the continually increasing economies in the use of gold.

It may be reasonably concluded, therefore, that for the approximately 9 year period from April, 1921, to the end of 1929 during which commodity prices in the United States were fairly stable at a level averaging about 41 per cent about the pre-war level and during which the world's stock of monetary gold in central banks and government treasuries increased on an average by 3.2 per cent a year, and the world's production of basic commodities likewise increased on an average by about 3.2 per cent a year, there is no evidence that the world was suffering from what could be called an enduring scarcity of monetary gold.

While it is true that during the decade 1921 to 1930 many countries went over to the gold standard, nearly all of these countries or the areas they cover had been on the gold standard before the War, and their return to it did not represent an increased demand for gold as compared with the pre-war demand. Furthermore, as previously mentioned, a large number of these countries substituted the gold exchange standard and the gold bullion standard for the pre-war gold coin standard, with a resulting almost complete discontinuance of the hand-to-hand circulation of gold coin throughout the world, thereby effecting very substantial economies in the use of gold. Moreover, contrary to all expectation, gold has recently been pouring into the world's markets from the hoards of India in large quantities. In recent years, India has absorbed normally something like $90 million worth of monetary gold each year. In the 14 months from October, 1931, through November of 1932, according to the Federal Reserve Bulletin, India threw on to the world market $265 million worth of gold. In other words, for these 14 months, India, instead of absorbing from the world's markets upwards of 25 per cent of the gold produced, has been throwing into these markets the equivalent of about 45 per cent. Recent estimates of India's stock of gold vary from $2,500 million to $3,000 million. From the year 1873 to 1930, India's net recorded imports of gold totalled $2,800 million. The "London Times" of December 18 (1932) reports that in Britain's recent great gold-selling rush, that began a year ago, about $68 million of gold was sold to the Bank of England, half of this amount coming from jewelry and scrap metal. Since the outbreak of the World War, Russia has poured over $600 million of monetary gold into the rest of the world.

During the last few years, there has been a decided decrease in the amount of new gold absorbed in industry and the arts. When the price level in gold standard countries falls, the prices of jewelry and ornaments in which the cost of gold itself in large bulks tends to remain high as compared to the prices of other goods. This fact,

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that body of acquired knowledge which carries us along from the known into the unknown.

Past historic civilizations have been overthrown by errors persisted in over long periods of time. Let us endeavor to save our own from the same fate.

In this connection I want particularly to call attention to the splendid courage that is being displayed by President Roosevelt in his fight to lift commodity prices in order that those who borrowed money in 1926 may be able to pay it back with money which has the same purchasing power. He is being attacked on all sides by the same Tories who wrecked this country. The money changers do not want to leave the temple.

One should not be alarmed by statements emanating from Wall Street to the effect that we are about to have a dangerous and uncontrolled inflation. We find the United States Chamber of Commerce, Mr. Owen Sprague who until recently was in the employ of the British Government, Mr. Warburg, financial advisor to the World's Economic Conference and last we find the Federal Reserve Board of the United States together with the so-called best minds of this Nation which helped to bring us to the very precipice of ruin, now showing their true colors. They have been forced out into the open. They are condemning the President because he is trying to raise the commodity price level to the farmers by cheapening the dollar abroad so that the American cotton grower and the wheat farmer as well as the manufacturer who depends upon foreign markets will have an equal chance in competition with Great Britain and Japan.

Let us see what the British papers are saying about it. I read from a special cable dispatch of October 30th as follows: "The British do not want the dollar to fall far below the pound for fear that cheapened American goods would capture the British export trade." Again in the same article, it is stated that "the anger here is due to the fact that the British believe a manipulated dollar rate is not the real dollar value and that the British pound sterling, which has vast obligations in Great Britain's export trade, is going to be harried." Another article entitled "Sees Plot Against Dollar" states, "The London Herald expressed the opinion today that other nations deliberately have attempted to prevent President Roosevelt's gold plan from succeeding. There are good grounds for believing," said the newspaper in commenting on America's decision to buy gold abroad, "that the Bank of England in cooperation with the Bank of France, actually bought dollars on each occasion when President Roosevelt raised the internal gold price and thus prevented gold purchases from having any effect."

Again, I read from the London Daily Express of April 25, under the title "What the Falling Dollars Means" and "How Does This Affect Us," the following: "Since there is no anti-British move on the part of America, no action that we take can be construed as retaliation. Therefore, it is the duty of the British Government to see that the disparity between the dollar and the pound is maintained. By this means we shall keep our advantage in selling in foreign markets. If the Government fail to do this they will be answerable to every British workman now engaged in the export trade who loses his employment. These are the facts of the falling dollar situation. The Government dare not, and must not, ignore them."

Again, the London Daily Express of April 24, 1933, said, "In the struggle for foreign trade, the United States may depreciate the dollar to such an extent as to wipe out the advantage held at present by the British manufacturer, whose pound is still 22 per cent below the dollar. The pound is now a managed currency and easily within the power of the Chancellor of the Exchequer. He should exercise that power to maintain the pound constantly at a ratio below the dollar equal to that prevailing when the United States was still on the gold standard."

It was the British Government, the Bank of England, working through the international bankers of this country, which demonetized silver in 1873 because at that time they were the great creditor nation of the world and by demonetizing silver, they made their gold which would become the only primary money of the world, more in demand. This resulted in the farmers and the people generally throughout the United States, paying more in labor and services than they would have had to if we had remained on a bimetallic standard.

How long are the people of the United States going to permit the international bankers of Europe working through the international bankers of the United States and the Federal Reserve Board, to dominate our money system? I admire the courage that the President of the United States is showing on this occasion and I hope that he will continue his fight to drive the money changers, in this case, the international bankers, out of the temple. If he does this, every American whether he be a merchant, manufacturer, farmer or a worker in the shops, must rally to his support and not be misled by the fake propaganda being put out by those who have all but wrecked our institutions, if not our civilization.

Where were these men from 1924 to 1929 who are now worried about cheapening the dollar, the remonetization of silver or a currency inflation. We were then in the midst of the greatest credit inflation that this or any other country had ever seen? Were they protesting when these international bankers not only controlled the finances of this nation but likewise dominated the railroads and controlled practically all of the great industries of the Nation? Were unloading them stocks and bonds upon the little bankers throughout the country and upon the merchants? Yes, even upon the widows, orphans, the bootblack and the chamber maid. Their voices were not raised at that time against an uncontrolled credit inflation. That uncontrolled credit inflation was at a time when we were on the gold standard.

Nothing that the President or the Congress of the United States has done or will do or contemplates doing will bring about as much misery and suffering as has

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together with the business inactivity and economic hardship which usually accompany a period of rapidly falling prices tends greatly to reduce the demand for gold for ornamental purposes during such periods. Referring to the industrial demand for gold, Federal Reserve Bulletin of October, 1932, said: "There have been times within the last 20 years when the net industrial consumption of gold, according to accepted estimates, has exceeded $100,000,000 per year, but it has remained below that figure since 1921, and averaged about $70,000,000 to $80,000,000 during the period 1924-1929. In 1930 the net industrial consumption decreased to about $50 million." The United States normally consumes more gold in the arts than any other country. Its consumption of new material in the manufactures and the arts declined from $25 million in 1929 to $6 million in 1931. Apparently the world's new demand for gold in the industrial arts for 1932 will be found to have been exceedingly small.—*Extracts, see 2; p. 32.*

by Alfred E. Smith

Editor, The New Outlook
Former Governor of New York

I MAKE no pretense of being an expert on gold. This much I know—that the gold standard on the whole has worked well. The reasons are obvious. There is a limited amount of gold in the world. This amount varies little. Gold is easy to handle. Men want gold and for ages have regarded it as a standard of value. Every reader of the Bible knows this. The terms in which the common man speaks of gold today have been handed down to him from countless generations of ancestors of every race and breed. A great many of the stories which have been written, or told, have gold as the central motive. Gold does not always play a noble part in these stories. It is often the root of all evil, but it is always the symbol of wealth. Since the dawn of civilization and the end of the age of barter, it has represented security, reliability and the unquestioned medium of exchange. Civilization has taught us that gold is not a god to be worshipped. It is, however, an instrument which has served men well. The burden of proof is, therefore, on those who want to get away from it.

In no other country in the world have sound money and the gold standard served better than in the United States. Can it be possible that the nation which repudiated Bryan and narrowly averted a great national financial tragedy in 1896, and which rejected Bryanism twice thereafter, will now embrace monetary inflation? Can it be possible that the political party, which for a whole generation was deprived of national public office because of its free silver and other economic heresies, will now, in the hour of its opportunity, go back to the very doctrines which in the past alienated the wisest and best of its members and drove them out into the opposition? Is the Democratic party fated to be always the party of greenbackers, paper money printers, free silverites, currency managers, rubber dollar manufacturers and crackpots? I don't believe so. But if so, the issue is more than a partisan one, because we are dealing today with the party which actually holds responsible government office, which is not merely advocating cure-alls in a campaign, but which has in its hands the present welfare of 130,000,000 people and the future of our most cherished American institutions.

This is an era of experiment. The argument seems to have prevailed that everything which has served us in the past and everyone who has been identified with bygone prosperity, should be under suspicion. The national Administration has, therefore, turned to those who have ideas but no experience, to those who think they know how things should be done without ever having had the responsibility of trying out their theories. I have no objection to amateurs and novices, and no fear of experimentation as such. As I said in an article in the New Outlook some months ago with reference to the academic planners who now for the first time have a great big public laboratory for their experiments, "if we could give the planners a corner of Alaska or a chunk of the Bad Lands for their experiment, it would not be so serious. Then if the laboratory blew up, the whole nation would not suffer." Even universities do not call young professors of agricultural economics to the president's chair. They let the lecturer teach the boys and girls in the classes, but they get an executive to run the university. We have recently reversed the process in our national government. We have put the nation to buying and selling gold, on the assumption that by so doing we can control prices and thus restore prosperity, in the face of the fact that there is absolutely no evidence to support this theory, and of the even more obvious fact that not one person out of a thousand can understand it.

What we need in this country is absolute dependability in our money standards. It is the only thing which will restore confidence. The latest fiscal moves of the Administration have undermined public confidence. They have created uncertainty. Uncertainty paralyzes business, discourages private initative, drives money into hiding and places the entire burden of sustaining the population on the central government. We are told that there is a new theory of government abroad. It is the theory that the executives are quarterbacks on a football team who do not know a minute in advance what signal they will call next. They determine the plays on the basis of "hunches". Of course this is just another name for opportunism. There is nothing new in it. It never pulled a great modern industrial nation out of a depression. What the people need today is what the Bible centuries ago described as "the shadow of a great rock in a weary land." That was what Grover Cleveland represented to the people in his day—a symbol of strength and firmness, of coolness, of

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already been brought about by the Wall Street Bankers who are now complaining because of the fact that the President is seeking to correct the mistakes which they made in the past. Let no one mistake the fact that up until March 4th of this year, these people were in control of the financial, industrial and political policies of this nation and they are responsible for the condition in which we find ourselves this very moment.—*Extracts, see 6, p. 32.*

By Walter Lippmann

SOME of the defenders of the gold policy have undoubtedly maintained that prices respond automatically and exactly to the gold value of the dollar, and it is, of course, easy for the opponents of the policy to show that since October 21 they have not responded. This debate does not throw much light on the real problem. For we do not learn what we should do about the currency by showing that some one else has made an extravagant claim. We can take it as certain, I believe, that monetary science is not an exact science. If it were, there would not be such violent differences of opinion among experts and among bankers as to what practical policy to pursue. And since there is no exact science men have to form their judgments on a consideration of broad results over reasonably long periods of time.

* * *

Thus, we may ask ourselves, is it or is it not true that departure from the gold standard and a lowering of the value of the currency in terms of gold has something to do with arresting the deflation and reviving business? We know that Great Britain left the gold standard in September, 1931. And we know that between that date and June, 1932, which is usually regarded as the low point of the world depression, the British index of manufacturing production rose, though very little (it was 5 per cent), whereas the same index in the three leading gold countries fell 22 per cent for the United States, 22 per cent for France and 17 per cent for Germany. Perhaps there was no casual connection between adherence to the gold standard and continuing deflation, but it was at least a most remarkable coincidence. For it is a fact, which I believe cannot be disputed, that the gold standard countries sank to a depth of depression which the countries that abandoned gold escaped.

Now let us look at our experience after we abandoned gold and left the dollar to depreciate to about the amount which Britain allowed the pound to depreciate. We have seen that Britain to put it quite conservatively, remained at the level of prices and of production prevailing in September, 1931, whereas we sank to much lower depths. What has happened since the American dollar has followed the pound away from gold? It can be said broadly that we have recovered the ground lost since 1931. Taking the Federal Reserve figures as a measure, we find that in September the adjusted index of industrial production was back where it was in June of 1931, that factory employment was back where it was in August, 1931, that pay rolls were back where they were in October, 1931, that freight car loadings were back where they were about November, 1931, that commodity prices were back to September, 1931, that common stocks were back at a point somewhere between September and November, 1931, that the average price of bonds was nearer the level of November, 1931, than it was at any time while Britain was off and we were still on the gold standard.

* * *

Now it is open to any one to say that all of this would have happened anyway. But it is a most impressive fact that since the dollar has followed the pound, there has been a recovery approximately equal to the superdepression which occurred when it did not follow the pound. It will, I think, be very hard to convince the lay mind that all of this is accident and coincidence.

Now, I realize that these are rough generalizations and that dangerous and unwarranted inferences might be drawn from them. For example, it does not at all follow that having had some recovery by bringing the dollar into line with the pound, both being depreciated from gold between 30 and 40 per cent, that you can get more and more recovery by more and more debasement. You might get a panic and a collapse. But the inference is warranted, I think, that the British have been justified by the results in depreciating the pound as much as they have, and that we have been justified in following their example.

* * *

There is another broad consideration which, to the lay mind, is impressive. So far as I know, the United States is the only country not on the gold standard where the advocates of sound money profess to believe that the exchange value of the currency in gold and other currencies is of no importance provided it is fixed. Here alone it is said that it does not matter where we stabilize if only we stabilize. I never heard of a responsible Briton who said that about the pound. On the contrary, the British have fairly precise opinions, not absolutely exact, of course, as to how valuable they can afford to let the pound be.

Why is it that the upholders of sound money in the United States are so unwilling to discuss the proper valuation of the dollar, and even in many cases profess not to regard the question as important? There is a good reason, I think, and one with which it is easy to have a good deal of sympathy. They are afraid that if the question is debated, if stabilization is not effected in a hurry, the inflationists will get the upper hand. As between the danger of stabilizing at the wrong level and the danger of hog wild inflation they naturally, and rightly, prefer a blind stabilization.

So at bottom we are faced with a political question: can the President keep his control throughout the mone-

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rock-like integrity in the midst of shifting sands, heat and desolation.

A century and a half ago Patrick Henry made a speech to the Virginia legislature which is known today to every school child in the nation. He said: "I have but one lamp by which my feet are guided, and that is the lamp of experience." In the absence of anything definitely known to be better, I am for a return to the gold standard. I am for gold dollars as against baloney dollars. I am for experience as against experiment. If I must choose between private management of business and management by a government bureaucracy, I am for private management. I am ready to go through a certain amount of deflation if the choice is between this and outright money inflation. If I must choose between the leaders of the past, with all the errors they have made and with all the selfishness they have been guilty of, and the inexperienced young college professors who hold no responsible public office but are perfectly ready to turn 130,000,000 Americans into guinea pigs for experimentation, I am going to be for the people who have made the country what it is. And I say this with full knowledge of the fact that there are many things in the old order of society which I should like to have changed and which I do not applaud or even condone.

The fundamental cause of the depression was not lack of economic planning. It was not bad leadership in government and business. It was not over-production in agriculture and industry. These were all effects rather than causes. Even the World War was not the underlying cause. As I have said before, the fundamental cause was as old as original sin. Stubborn human nature is basically responsible for the world's economic miseries, and it is only by raising the general level of human character throughout the world that a new society, free from war, brutality, oppression, arrogance, inequality, selfishness, snobbery, waste, disease and unnecessary sorrow and suffering, can be brought about. It can't be done by magic, fiat, hocus pocus or mere experimentation.

There is no middle course in this sound money controversy. There is no way of playing both sides, and conciliating both the money inflationists and the sound dollar conservatives. That is the trouble with a battle of extremes, such as the one we seem unfortunately to be heading for. In such a battle, we have a choice of one of two things. It is like an election in which there are two candidates. We may not regard either one of them as perfect, but we have to make a choice or lose our vote.

I know that in writing this I am inviting the charge that I have "gone Wall Street." Well, this is not the first time I have taken the unpopular side of a great national question and have seen my position justified in the end. I have been in a temporary minority before, and it has no terrors for me. No one who has gone through what I went through in 1928 is going to be worried by sneers and epithets. In the end the country will rally to the gold standard as it rallied to the standard of prohibition repeal, because these are the American standards, and because in a democracy truth is mighty and will prevail.

As a young man, I followed my party faithfully through the "cross of gold" period, when oratory was thought to be a perfectly satisfactory substitute for sound economy and common sense, but I am too old now to be *regular* just for the sake of regularity. And I have earned the right to be independent when I think the public good demands it.

Put me down, therefore, as a sound money man.—*Extracts, see 5, p. 32.*

by Hon. L. J. Dickinson

U. S. Senator, Iowa, Republican

NATIONAL confidence cannot be restored with a continuous threat of monetary inflation, printing-press money or devaluation of the gold dollar.

The only way confidence can be restored, in my opinion, is to give the people confidence in the dollar. We have outstanding approximately the amount of money we had in the flush times of 1929. The trouble is not a shortage of money, but the lack of circulation of the money outstanding.

Any tinkering with the monetary system will be fatal to national recovery.

When fear overcomes us, early action is delayed. When dollar tinkering is threatened, the Government cannot pour money into business as fast as the individual can take it out. The first essential to business normalcy is an assurance that a definite course has been chartered, and that it will be faithfully followed.

Any effort on the part of the Government to force trade expansion without confidence in the future course is effort wasted. Progress cannot be made without the cooperation of the public. In this condition the public is master of the situation and not the Government.

Public confidence can again be restored by some definite action on the part of the Government in the practice of Government economies and the curtailment of expenditures to where the tax burden will not be so excessive as to discourage business; and also by the stabilization of our currency in cooperation with the leading countries of the world, and, connected therewith, the repeal of all authorizations or delegation of power to the President to print paper money, to remonetize silver or a debase the gold dollar.

It is not so essential where the value of the dollar is fixed, but it is essential that some value be agreed upon, and that the leading nations of the world agree to this valuation and pledge their honor and their credit to maintain the same.

When this is done, money will no longer be fickle and hard to find. Business will again expand and will be

Continued on page 28

PRO

Lippmann *Cont'd*

tary experiment? If he can, the operation of revaluing the dollar need arouse no more alarm than the equivalent operation in some thirty countries. If he cannot, there are great dangers. Therefore, it seems to me that the first concern of those who wish to see a satisfactory outcome must be to strengthen the President's hands by bringing to his support the great mass of moderate opinion.

Colliers Weekly

In the babel of voices talking about money, President Roosevelt unquestionably stands out as a conservative leader and influence.

President Roosevelt thinks it unwise now to guess how many grains of gold a future dollar will buy. Dollars are of course exchanged for other commodities besides gold. Like other commodities the value of gold depends upon the supply and demand for it.

All of the great nations are now busily engaged in accumulating as much gold as possible. Our desire to save what we had, by far the largest supply in the world, induced the government to stop gold payments last March and establish a gold market late in October. Gold is being piled up against the day when admittedly it will be used.

Even now when we are legally off gold, the American paper dollar buys in Amsterdam or London about two-thirds of the amount of gold it bought last February. The explanation is our gold hoard in the Treasury and the Reserve Banks. If, as a nation, we had no gold our paper money would buy nothing. Without any gold reserve we would exchange commodities, trade eggs for calico, as in the old days.

With a tremendous gold reserve piled up in the Treasury and bank vaults, President Roosevelt is attempting to manage the buying power of the dollar so that it will be worth, roughly, what it was in 1926. For the moment and for domestic purposes the dollar is to be measured by the prices of 786 important commodities upon which the Department of Labor keeps books.

Even with this great reserve of gold, always potentially available, this is a vast undertaking. It is possible to manage a currency. Sweden seems successfully to have done so during the past two years. Currency is managed by buying and selling gold, by the manipulation of interest rates and by other intricate banking devices.

One great difficulty in this country lies in our lack of a unified banking system. We have forty-eight state systems and a national system. President Roosevelt's task would be greatly facilitated if American banks were organized in strong chains as are Canadian and British banks. His policy, however, is in purpose essentially conservative and constructive. The method is new but vastly to be preferred to the schemes of the wild men who would dishonor debts and degrade the money of the nation. *Extracts, see 9, p. 32.*

CON

Dickinson *Cont'd*

ready to take a chance. At the present time, not knowing the value of gold tomorrow and fully realizing that a raise in the price of gold does not bring about a raise in the price of products; not knowing when an order will be made to print paper money or when silver will be remonetized or at what ratio, every individual and every business is bound to retrench and prepare for the worst.

It seems to me that we should leave this detour on the road of experiment and return to the worn path of experience.—*Extracts, see 9, p. 32.*

Columbia University Professors

We strongly urge that all artificial efforts to depreciate the external value of the dollar through purchases of domestic and foreign gold cease.

Whatever the technical value of such operations as a method of raising prices, there is strong probability that this policy will lead to trade restrictions and retaliations on the part of other nations and to competitive currency depreciations. In blunt but accurate words, it is a form of economic warfare.

Much has been said of the proposal to adopt a "commodity dollar" as an alternative to a fixed gold standard, with the object of stabilizing price levels. As an objective for attainment at some future time, the program deserves serious attention. What is now needed, however, is an expeditious return to the only standard which, by long experience and tradition, enjoys general confidence —the gold standard. This does not necessarily mean a return to a gold dollar of the former weight and fineness. The vital necessity is to reintroduce the gold standard and we recommend that an agreement be sought with Great Britain and with those nations whose currency is linked to the pound sterling for a general return to gold, giving consideration to measures which would make it possible for other nations to join us in a concerted effort to stabilize the foreign exchanges.

As long as the present monetary instability persists the markets for long-term capital will not function effectively, and the flight of capital from this country will continue. *Extracts, see 10, p. 32.*

The Students' Question Box

Replies to Queries on Gold and Currency

The following questions and answers on gold and the gold standard are from "Gold," a pamphlet issued by the Pittsburgh Public Schools. The pamphlet was written by R. O. Hughes, Assistant Director, Department of Curriculum Study.

What is money?

Money is anything which people in general will accept in exchange for goods which they have to dispose of, or services which they are able to render. With it the great inconvenience which often attends barter or direct exchange of one kind of goods for another is avoided. Many things have been used as money. Beads, tobacco, cattle, and precious stones are examples. To be used for any extensive period, however, a commodity must possess certain qualities which only a few articles do possess to a sufficient extent.

What qualities should money possess?

One quality may be more important than another to different people and at different times, but in general these qualities are emphasized by economists: (1) value in itself—a thing would not, as a rule, be generally acceptable as money unless it were useful for other purposes also; (2) stability—to be useful as money, the value of the commodity itself should not change greatly from one period to another; (3) durability—it must not easily wear out when used; (4) portability—there must be enough value in a small quantity to permit it to be carried around readily; (5) divisibility—we must be able to divide it without destroying its value and must be able to indicate definite values by the smaller parts. (Four pieces of a certain weight must be worth just the same as one peice weighing as much as all four of the smaller ones, for example.) (6) cognizability—the commodity must be easily recognized; otherwise it could be counterfeited and it would be hard to tell, when one had a coin, whether it was really good or not.

What is a money standard?

It is a quantity agreed upon which everyone recognizes as the same and which is used as a basis for reckoning the value of all sorts of commodities.

Is it best to have one commodity as a standard, or more than one?

The experience of almost all nations indicates that a single standard (monometallism) is preferable. In our own country we tried for many years to maintain two metals, gold and silver, as standards at the same time (bimetallism). But no two commodities stay at just the same value toward each other for any long period. This is just as true of gold and silver as of gold and potatoes. So if we can find a commodity which meets well the requirements for a good money, it seems best to take that one as a standard and measure everything else by that one.

Why have gold as the standard?

Because it possesses, in a very large measure, all the desirable qualities of good money. (1) It has value in itself—all people are glad to receive it. (2) Its value is relatively stable—though much more is now produced in a year than a hundred years ago, the amount produced does not change very much between one year and the next. (3) It wears well and can be made still more durable by putting into the coins a little other metal that will increase its wearing qualities. All our gold coins are "nine-tenths fine"; that is, they are 90% gold and 10% copper alloy. (4) A little gold represents a good deal of value. Gold money is, therefore, relatively portable. (5) Gold can easily be put into coins of different forms and sizes, except that it is not so useful to represent small values. (6) Gold can easily be distinguished from other metals by those who have any knowledge of the qualities of metals.

What is the standard of our money system?

The gold dollar is now the standard of our currency system. If coined, it would weigh 25.8 grains; of this amount, 23.22 grains are gold.

Is all of our gold in dollars?

No. No gold dollars are coined at the present time. Gold coins are made in values of $5.00, $10.00 and $20.00. Much of the gold in the possession of our government has not been coined at all. It is in the form of gold bars, or bullion.

How does the government get gold?

It is brought to the proper offices by those who have it in the form of bars or other shape. The government, in ordinary times, will exchange gold coins for the bars to exactly the same value by weight as the gold that is brought in. The government then keeps the gold in bars, or makes it into coins if people seem to want them. We thus have *free coinage* of gold, in that anyone who has gold may take it to the mint and exchange it for coin or paper money of the same value.

What is the present practice about coining silver?

There is a fixed ratio by weight established by law between the amount of gold in a gold dollar and the amount of silver in a silver dollar. The amount of silver in a silver dollar is almost exactly 16 times as much as the amount of gold in the gold dollar. It is this fact which has led to the use of the term "16 to 1" in discussing coinage and currency questions. We do not have free coinage of silver. The government buys what silver it needs just as it buys copper or paper. Just now (May, 1933) a given amount of silver not coined is worth considerably less than the same weight of silver in coins.

How much gold is there in the world? In the United States?

The governments of the world have under their control somewhat over eleven billion dollars' worth of gold. The United States government usually has in its possession somewhat over 40% of this amount. The French government at present has the next largest amount of gold under its conrtrol. Considerably less gold is in the hands of governments than is used in manufacturing articles out of gold or for other commercial purposes.

Is all the paper money backed by gold? If not, how can paper money be any good?

No. A very considerable part of our paper money is not directly backed by gold. Much of our paper money has on it a printed statement that tells what it is based on. The gold certificates do represent gold coin or bullion in the treasury; the silver certificates represent silver dollars in the hands of the government. The United States notes, commonly called "greenbacks," are backed by a "gold reserve" of somewhat less than half the face value of the greenbacks. The National Bank notes are backed by United States government bonds which the national banks own; the Federal Reserve notes and the Federal Reserve Bank notes are backed by gold or some form of commercial credit in the possession of the Federal Reserve Banks. In normal times any of these kinds of paper money can be exchanged for gold or gold certificates; since people seldom ask for the exchange of this paper money for gold in large amounts at one time, our government makes no attempt to keep any more gold in reserve, except for the gold certificates, than is thoroughly sufficient to cover any likely demand for gold in ordinary times.

What do we mean by saying a country is "off the gold standard"?

A country is off the gold standard when it is not willing to exchange gold for other forms of money and when it makes no attempt to keep its paper money equally acceptable with gold in business. Our government at this time (May, 1933) is not giving out gold or gold certificates in exchange for other forms of money. It refuses to give out gold, and demands that people who have gold shall turn it into the Treasury, because it is determined to keep the government's stock of gold sufficiently large to support all the rest of the currency without danger. It probably could meet every demand likely to be made upon it now for the exchange of gold for paper. When that is true, people in general have no particular anxiety to get the gold.

What harm is there in hoarding gold?

When it is necessary for a government to be unusually careful in keeping gold on hand to cover any strain on its money system, if private citizens hold their gold so that it cannot render any service in trade, they are hindering the government's attempt to keep its currency on a sound basis. If only a few people hoard, and if amounts of gold kept by private citizens are small, no particular harm can be done; but when any number start hoarding gold, other people become afraid, and a condition resembling a panic may start. Money that is hoarded,whether gold or any other kind, does no good to anybody as long as it remains hoarded. It is useful only as it is spent for things that people produce or for services that they render.

Why did our government forbid the exportation of gold?

Partly because it wanted to check any possible effort on the part of speculators in other countries to get away from us the gold which supports our money system and partly because when gold once gets out of the country it is less easy to prevent its being hoarded by private citizens. Besides, this makes our paper money worth less in other countries, since it cannot be exchanged for gold, and it is asserted that the lowering of the value of our dollar will cause prices measured in dollars to rise.

Is there any relation between gold and prices, other than measurement?

If the amount of gold in circulation is down, then there is less gold to be exchanged for other things. That may mean that their value in trade will go down as compared with gold, and so the prices that would be charged for them would be less. On the other hand, if a greater quantity of gold should be coined than usual, and there was much more gold in circulation in comparison with the same quantity of goods produced, then the goods would seem to increase in value as compared with the gold and prices would go up. Little money, prices low; much money, prices higher. The effect of an increased quantity of gold on prices, however, is much smaller than the effect of an increased quantity of paper money, because it is so much easier to enlarge the amount of paper money than to increase the quantity of gold money. That is the big danger in "inflation" of paper money—that when it is once started, it is very hard to stop. We do not need any more money of any kind than is necessary to make it convenient for trade to be carried on. Simply increasing the amount of money in circulation when there is no actual need for its use is almost invariably a dangerous performance.

What does the proposal for the "devaluation" of gold mean?

Some people are asking that Congress shall pass a law declaring that some smaller quantity of gold than 23.22 grains shall be called a dollar. Then the present gold dollar would be worth more than it is now—perhaps \$1.25, \$1.50, or even \$2.00, depending on how great a change was made. Of course, that would mean that the prices of everything, measured by the changed dollar, would be much higher. Wages paid in dollars would not buy nearly so much as they do now. Congress has authorized the President to issue more United States notes, to arrange for the free coinage of silver at any ratio he orders, and even to reduce by not more than 50 per cent the amount of gold in a gold dollar. It is not expected that all these things will be done, and perhaps none of them will. But it is better that the situation shall be left in he President's hands to be handled in accordance with what future conditions may require than that Congress should pass a fixed law now.

A Glossary of Currency Terms

Base Metal

Any metal, as iron, lead, etc., readily altered by exposure to air, etc.; generally a metal of inferior value as contrasted to noble metals, such as gold, silver, etc.

Bimetallism

This compound word is used to describe the employment of two metals to form, at the same time, in combination with each other, the standard of value. The final report of the (British) Royal Commission on Gold and Silver (London, 1887) describes bimetallism as follows: "A bimetallic system of currency to be completely effective must, in the view of those who advocate it, include two essential features: (a) an open mint, ready to coin any quantity of gold or silver which may be brought to it, (b) the right on the part of a debtor to discharge his liabilities, at his option, in either of the two metals at a ratio fixed by law." It is usually understood now to mean that the two metals are used thus at a fixed proportion to each other. (Palgrave.)

Commodity Price

The existing value of commodities, in terms of money.

Debase

To reduce from a higher to a lower grade of worth; lessening the intrinsic value of a coin or of currency.

Coins may be debased in three ways: (1) a debasement in total weight; (2) a debasement in fineness; (3) a debasement by increasing the rating or nominal value, the coins continuing at the same standard weight and fineness. The effect of the last may also be brought about unintentionally by a fall in the value of the precious metals.

Demonetization

The discontinuance by a government of the use of a coin, and its official withdrawal from circulation.

Earmarking

If a bank wants to have set aside a certain amount of gold, it is "earmarked," or set aside as belonging to that bank.

Fiat Money

A colloquial term in the United States applied to paper money issued by the government as money, but not supported by coin, bullion, or any promise of redemption.

Free Coinage

The right of any person to have bullion coined by the Government at the legal rate.

Free Silver

A term used to indicate the legal free coinage of silver.

Gold

A metallic element of characteristic yellow color; the most precious metal used as a common commercial medium of exchange. It is the most malleable and ductile of all the metals, and one of the heaviest substances known. It is quite unalterable by heat, moisture, and most corrosive agents, and therefore well suited for its use in coin and jewelry. (Webster's New International Dictionary.)

Gresham's Law

This term denotes that well-ascertained principle of currency which is forcible though not quite adequately expressed in the dictum—"bad money drives out good." It has also not infrequently been explained by the statement that where two media of exchange come into circulation together the more valuable will tend to disappear. The principle in its broadest form may be stated as follows: Where by legal enactment a government assigns the same nominal value to two or more forms of circulatory medium whose intrinsic values differ, payments will always, as far as possible, be made in that medium of which the cost of production is least, and the more valuable medium will tend to disappear from circulation; in the case where the combined amount in circulation is not sufficient to satisfy the demand for currency, the more valuable medium will simply run to a premium. (Palgrave.)

Gold Basis

This term is used in connection with a monetary system to denote that government currency is redeemable in gold.

Gold and Silver Reserves

Reserves of gold and silver held by a government to redeem the currency it has issued.

Gold Bullion Standard—Gold Exchange Standard

See article by Mr. Goldenweiser, p. 6.

Gold Standard

Generally speaking, the gold standard is a term applied to a monetary system in which the monetary unit is maintained at a parity with a given amount of gold established by law as the basic monetary standard.

Inflation

As applied to currency the term "inflation" means to increase, by law, the amount of currency in circulation. In the Pro and Con section several methods of inflation are discussed.

Legal Tender

That currency or coin which the law authorizes a debtor to tender and requires a creditor to receive in payment of money obligations.

Monometalism

The legalized use of one metal only, as gold or silver, in the standard currency of a country or as the standard of money value.

Silver Standard

Wherever silver coins are full legal tender and constitute the money in which commercial exchanges and values are measured, and where other coins are rated in their relation to silver coins, the silver standard may be said properly to exist. A still further condition is really necessary, namely, that the mints of a country having the single silver standard must be open to the free coinage of silver.

Silver Stabilization

Making the value of silver stable by legislation. (See Stabilization).

It is the absence of a fixed legal monetary standard for silver that prevents silver from being standardized in price as is gold.

Sixteen to One

A slogan of the Democratic party in the Presidential campaign of 1896, when William Jennings Bryan was its candidate, alluding to the party's advocacy of the free and unlimited coinage of silver at a legalized ratio to gold of 16 to 1.

Seigniorage

A charge exacted by a government from persons for coining their bullion into coins at a mint.

Stabilization

The value of a commodity is a relative term. It is great or small according to the relation existing between the wants which the said commodity could satisfy and the means available for satisfying such wants in addition to the commodity itself. In the sense of value-in-exchange, the value of the commodity is equally relative to the extent of want and the extent of the available means of satisfaction. The wants in question are now conceived of, not as those which can be directly satisfied by the consumption or use of the commodity, but such as might be satisfied by any of the indefinitely numerous kinds of commodity which might be obtained in exchange for it, in such quantity as its value enables them to be procured.

The value of the commodity may be said to be stable if, either by itself or by what can be procured in exchange for it, it can afford a utility which remains the same from one time to another. Stability of value, in the sense of stability of exchange-value, is generally meant to imply merely the capacity for procuring in exchange equal quantities of some one other commodity, or of other commodities in general. This last expression acquired definiteness through the calculation of index numbers which are devised to procure a measure of the stability of value of money and hence of any commodity whose money-value is ascertained. (Palgrave.)

Standard Gold Dollar

Under the laws of the United States, this is a coin composed of 25.8 grains (troy weight) of gold, nine-tenths fine; so that our gold dollar now consists of 23.22 grains of pure gold and 2.58 grains of copper.

Supply and Demand

The term generally used in economics in discussing the effect on prices of commodities of an oversupply or undersupply of those commodities, the general rule being that when a given commodity is scarce, its value in terms of money rises, and when it is plentiful, its value falls. (See Stabilization.)

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2—(Kemmerer) Journal of the American Statistical Association, March, 1933.

3—(Thomas) Address before American Academy of Political and Social Science, Philadelphia, November 22, 1933.

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5—(Pasvolsky) "Current Monetary Issues," by Leo Pasvolsky.

6—(Wheeler) Radio speech over N.B.C., Washington, November 25, 1933.

7—(Lippmann) *New York Tribune*, December 12, 1933.

8—(Colliers) Editorial, *Colliers Weekly*, December 9, 1933.

9—(Dickinson) *Washington Herald*, December 18, 1933.

10—(Columbia University Professors) Statement issued November 28, 1933, by thirty-seven professors of economics and finance of Columbia University.